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FURTHER CORRESPONDENCE

RESPECTING

PERSIA

PART 8

January to December 1954

SECRET

TABLE OF CONTENTS

No. and Name	Date	SUBJECT	Page
GENERAL CORRESPONDENCE			
(a) General			
1	1954	Summary of events in Persia, 1953 ... (Memorandum prepared in the Foreign Office.)	1
2	Mr. Wright ... (Tehran)	Settlement of Anglo-Persian oil dispute ...	6
	(1) No. 15 Tel.		
	(2) No. 18 Tel.		
	Mr. Eden ...		
	(3) No. 24 Tel.		
3	Mr. Eden ...	Conversation between the Secretary of State and Sir William Fraser, the Chairman of the Anglo-Iranian Oil Company, on January 8, 1954 ... Abandonment by A.I.O.C. of full claim a very serious step; proposal by Sir William Fraser that Persian Government should be asked to allow representatives to go to Tehran to form judgment on the possibilities of A.I.O.C. returning or of forming an international consortium; Secretary of State suggests that perhaps it would be better to share the responsibility with other major oil companies in the Middle East; great tact will be needed in bringing our proposals before the Persians.	9
4	Mr. Wright ... No. 2	Internal situation in Persia ... Security forces of the country loyal and their morale good; country as a whole quiet; American confidence that the new Majlis will be an improvement on the old; a good harvest, American aid and good basic food stocks have produced a situation of stability which should continue.	10
5	Mr. Eden ...	Settlement of Anglo-Persian oil dispute ...	12
	(1) No. 35 Tel.		
	(2) No. 182 Tel.		
	Mr. Wright ...		
	(3) No. 38 Tel.		
	Mr. Eden ...		
	(4) No. 44 Tel.		
	(5) No. 226 Tel.		
6	Mr. Eden ...	Conversation between the Secretary of State and the Persian Chargé d'Affaires on January 19, 1954 ... Persian Government satisfaction that relations had been resumed; Chargé confident that in the near future the oil problem would be satisfactorily resolved.	15
7	Mr. Eden ...	Decision taken by the Board of Directors of the Anglo-Iranian Oil Company on January 14, 1954, concerning their claim for compensation concerning their interests in Persia ... Anglo-Iranian Oil Company agree to a solution of their problem along the lines of a Consortium in which the Company would have a 50 per cent. interest.	15
8	Sir Roger Makins ...	Settlement of Persian oil dispute ...	16
	(1) No. 156 Tel.		
	Mr. Eden ...		
	(2) No. 67 Tel.		
9	Mr. Wright ...	Statement to Minister for Foreign Affairs of our proposals regarding the oil problem ... Minister pleased with statement and recognised it as a big step forward; in matters of publicity we and the Persian Government must march in step; desire by the Persians for prior information of any future announcements from London or Washington.	16

SECRET

TABLE OF CONTENTS

No. and Name	Date	SUBJECT	Page
10	1954	Commercial and economic conditions in Persia ... Large increase in Japan's share of the import and export trade a prominent feature; devaluation of the rial during Dr. Musaddiq's term of office a useful source of revenue for the exporter; sufficient food in the country for normal consumption and the big importers holding big stocks of most goods; poor distribution system may cause serious local shortages; no real possibility of putting new life into the economy until the oil problem has been solved.	17
	Mr. Wright ... No. 6 E.		
11	Mr. Eden ...	Settlement of Anglo-Persian oil dispute ...	18
	(1) No. 75 Tel.		
	Mr. Wright ...		
	(2) No. 79 Tel.		
	(3) No. 80 Tel.		
12	Mr. Wright ...	Political developments in Persia during the last six months and the outlook for the near future ... Dr. Musaddiq discredited largely because of his powerlessness vis-à-vis the Tudeh Party; Government have earned respect by their firmness but they lack any appreciable measure of active support; likelihood of considerable popular support for Dr. Musaddiq; Government record so far fairly promising in view of their legacy of difficulties.	20
	No. 9		
13	Mr. Wright ...	Feelings in Persia towards the British ... Some success obtained in the task of winning the confidence of the Persian Government; a certain coolness shown by the Shah; anti-British feeling in Persia not deep-rooted and mainly a relic of the Musaddiq era; much patient work needed to finally convince the Persians of our good faith.	22
	No. 10		
14	Mr. Wright ...	Report on the maintenance of oil installations at Abadan ...	24
	No. 136 Tel.		
15	...	Quarterly political report for period October-December 1953	25
16	Sir Roger Stevens ...	The bearing of the political situation in Persia on the oil negotiations ... Present discussions with the Persians should not be treated as ordinary negotiations; necessity of satisfying, or appearing to satisfy, Persian national pride.	29
	No. 16		
17	Mr. Eden ...	Conversation between the Secretary of State and the Persian Ambassador on March 17, 1954 ... Ambassador hopes that delay in the oil discussions would not last long; British advice desired in the matter of the Persian armed forces; Shah most anxious to develop the present cordial relations.	31
	No. 53		
18	Sir Roger Stevens ...	Anglo-Persian relations ...	32
	No. 13 Saving		
19	Sir Harold Caccia ...	Confirmation that negotiations by Her Majesty's Government for compensation only to be carried out in accordance with the Anglo-American understanding ...	33
20	...	Iran ... Memorandum of Understanding on "Basis for the Settlement with Anglo-Iranian" following discussions between representatives of Gulf Oil, Texas, California Standard, Jersey Standard, Socony Vacuum, C.F.P., Royal Dutch Shell and Anglo-Iranian.	34
21	Sir Roger Stevens ...	Quarterly report for the period January-March 1954 ...	38
	No. 27		
22	Sir Roger Stevens ...	Notification to the Shah by the Senate and Majlis of their full constitution ...	39
	No. 32		
23	...	Settlement of Anglo-Persian oil dispute ...	41
	No. 112 Intel.		

SECRET

TABLE OF CONTENTS

No. and Name	Date	SUBJECT	Page
	1954		
24 Sir Roger Stevens ... No. 53	July 8	Quarterly report for April-June 1954 ...	42
25 Sir Roger Stevens ... No. 56	July 17	Relations between the Soviet Union and Persia in connection with the Turko-Pakistani Pact ...	44
26 Sir Roger Stevens ... No. 59	July 22	An appreciation of the two Houses of the Persian Parliament Both Houses the product of elections in which there has been considerable interference; absence of organised political parties makes difficult the assessment of the significance of groups in the Persian Parliament; politicians generally lack personality and the word of the Shah decisive in most cases.	46
27 ... No. 36	Aug. 3	Settlement of Anglo-Persian oil dispute ...	48
28 Sir Roger Stevens ... No. 71	Sept. 8	Report on a Note Cover Act brought into force on July 21 ... Main object of the Act to give the Bank Melli more latitude in adjusting the volume of currency in circulation.	49
29 Sir Roger Stevens ... No. 72	Sept. 15	Communist conspiracy in the Persian armed forces and police	52
30 Sir Roger Stevens ... No. 62 Saving	Sept. 22	Anglo-Persian relations ...	55
31 Sir Roger Stevens ... No. 81	Oct. 12	Quarterly report July-September 1954 ...	58
32 Sir Roger Stevens ... No. 66 Saving	Oct. 25	Anglo-Persian relations ...	60
33 Sir Roger Stevens ... No. 93	Nov. 16	Succession to the Persian throne ... Question of a successor to the present Shah raised by the recent death of Prince Ali Reza; no issue at present from the Shah's marriage with Queen Suraya.	63
34 Mr. Wright ... No. 97 E.	Nov. 30	Conclusion of commercial relations between Persia and the Federal Republic of Germany ...	65
35 Mr. Wright ... No. 10338/20/54	Dec. 8	Soviet-Persian Agreement on financial and frontier matters ...	67

Appendix—Biographical Notes

	1954		
35A Sir Roger Stevens ... No. 84	Nov. 8	Iran: Heads of foreign missions ...	68

(b) Oil Negotiations

	1954		
36 Sir Roger Stevens ... (1) No. 315 Tel. (2) No. 316 (3) No. 319	Apr. 14 Apr. 14 Apr. 14	Opening meeting held on April 14, 1954 ...	71
37 Mr. Fry ... No. EP1534/74	Apr. 23	Progress of the Anglo-Persian oil negotiations ...	73

TABLE OF CONTENTS

No. and Name	Date	SUBJECT	Page
	1954		
38 Sir Roger Stevens ... (1) No. 18 Mr. Allen ... (2) No. 1534/87	Apr. 24 May 1	Conversation between Sir Roger Stevens and the Shah of Persia on April 22, 1954 ...	75
39 Sir Roger Stevens ... No. 15327/5/54	Apr. 21	Review of the progress to date of the negotiations ...	76
40 Mr. Eden ... No. 463	May 11	Negotiators consult with their principals ...	80
41 Sir Roger Stevens ... No. 26 Saving	May 19	Principal points unresolved between Consortium Delegation and Persian Government ...	82
42 Mr. Eden ... (1) No. 504 (2) No. 505	May 29 May 29	Oil negotiations ... Conversation between the Persian Ambassador in London and Mr. Eden, in Geneva on May 29, 1954.	83
43 Sir Roger Stevens ... No. 41	May 29	Progress of negotiations ...	85
44 Foreign Office ... No. 1174	June 16	Agreement reached on forming a Consortium Company ...	87
45 Sir Roger Stevens ... No. 48	June 19	Persian comment on the oil negotiations ...	88
46 Sir Roger Stevens ... No. 43 Saving	...	Audience of Her Majesty's Ambassador with the Shah of Persia on June 30, 1954 ...	89
47 Mr. Eden ... (1) No. 241 Tel. Mr. Stewart ... No. 156 Tel. (3) No. 159 Tel.	July 27 Aug. 3	Proposal to obtain Inter-Governmental Agreement with Persians ...	91
48 Sir Roger Stevens ... (1) No. 63 (2) No. 15327/35/54G	Aug. 13 Aug. 20	Observations on the future of the Anglo-Persian oil negotiations Great credit due to the work of Dr. Amini; Shah fully committed to backing the agreement and this attitude not likely to change now.	92
49 Sir Roger Stevens ... No. 75	Sept. 28	Presentation of the oil agreement to the Senate and Majlis ...	96
50 Sir Roger Makins ... No. 2143 Tel.	Oct. 7	Treatment of independent oil companies ...	98
51 Sir Roger Makins ... (1) No. 2180 Tel. Sir Anthony Eden ... (2) No. 5284 Tel.	Oct. 12	Middle East oil talks ...	99
52 Sir Roger Stevens ... No. 1208 Enclair	Oct. 21	Majlis approval of oil agreement ...	100
53 Sir Roger Stevens ... No. 1231	Oct. 28	Senate approval of oil agreement, October 28 ...	100
54 Sir Roger Stevens ... No. 1240 Enclair	Oct. 30	Signature of Oil Agreement by Shah on October 30, 1954 ...	100

(c) Compensation Negotiations

55 Sir Roger Stevens ... No. 238	Mar. 28	Suggestions by Her Majesty's Ambassador ...	100
56 Mr. Eden ... No. 65	Apr. 8	Instructions to Her Majesty's Ambassador in regard to negotiations with the Persian Government on compensation for the Anglo-Iranian Oil Company ... Her Majesty's Government to reserve all their legal rights pending a solution satisfactory to the Consortium negotiators; no desire by the United Kingdom to ask Persia to pay more compensation than could be comfortably sustained by her economy.	101

TABLE OF CONTENTS

No. and Name	Date	SUBJECT	Page
	1954		
57 Sir Roger Stevens ... (1) No. 349 (2) No. 350	Apr. 20 Apr. 20	Results of first meeting ...	103
58 Sir Roger Stevens ... (1) No. 436 (2) No. 444 (3) No. 455	May 4 May 5 May 6	Results of second meeting ...	104
59 Sir Roger Stevens ... No. 675	June 29	Conversation between Her Majesty's Ambassador and the Prime Minister on June 28, 1954 ...	106
60 Sir Roger Stevens ... No. 787	July 22	Results of meeting held on July 22 and 23, 1954 ...	107
61 Mr. Eden ... No. 759	July 24	Discussion in London between Anglo-Iranian Oil Company and Her Majesty's Government ...	108
62 Sir Roger Stevens ... No. 804	July 26	Persian offer of £25 millions ...	109
63 Mr. Eden ... No. 797	July 28	Her Majesty's Government and A.I.O.C. reaction to Persian offer ...	109
64 Mr. Eden ... (1) No. 808 (2) No. 810 Sir Roger Stevens ... (3) No. 851 (4) No. 864 (5) No. 870 (6) No. 886 Mr. Eden ... (7) No. 831 Sir Roger Stevens ... (8) No. 903 (9) No. 904 Mr. Eden ... (10) No. 849 Sir Roger Stevens ... (11) No. 910 Mr. Eden ... (12) No. 870	July 30 July 30 July 30 Aug. 1 Aug. 1 Aug. 2 Aug. 2 Aug. 3 Aug. 3 Aug. 3 Aug. 4 Aug. 4	Method of making payments ...	111

(d) Payments Negotiations

	1954		
65 Mr. Eden ... (1) No. 262 (2) No. 263 Sir Roger Stevens ... (3) No. 220 (4) No. 367 Mr. Eden ... (5) No. 399	Mar. 20 Mar. 20 Mar. 22 Apr. 22 Apr. 24 Apr. 26	Payments relations ...	116
66 Sir Roger Stevens ... (1) No. 386 (2) No. 387 (3) No. 388 Mr. Eden ... (4) No. 425 (5) No. 426	Apr. 26 Apr. 26 Apr. 26 May 1 May 1	"Heads of Agreement" (arrangement between Persia and the United Kingdom on the payments question) ...	119
67 Sir Roger Stevens ... No. 431	May 3	Problem of Residual Guarantee ...	122
68 Sir Roger Stevens ... (1) No. 451	May 6	Payments Agreement ...	122

TABLE OF CONTENTS

No. and Name	Date	SUBJECT	Page
	1954		
Mr. Eden ... (2) No. 447	May 8		
69 Mr. Eden ... (1) No. 456 Sir Roger Stevens ... (2) No. 475 (3) No. 476 (4) No. 477 Mr. Eden ... (5) No. 475	May 10 May 11 May 11 May 11 May 13	"Heads of Agreement" ...	123
70 Sir Roger Stevens ... (1) No. 536 Mr. Eden ... (2) No. 567 (3) No. 579 Sir Roger Makins ... (4) 281 Saving Mr. Eden ... (5) No. 596 (6) No. 2907 (7) No. 2908 (8) No. 2925 Sir Roger Stevens ... (9) No. 643 Mr. Eden ... (10) No. 604 (11) No. 609 (12) No. 610 Sir Roger Makins ... (13) 291 Saving Mr. Eden ... (14) No. 3104 (15) No. 3105 Sir Roger Makins ... (16) Personal (17) No. 1462 (18) No. 1544 Mr. Eden ... (19) No. 3562 Sir Roger Makins ... (20)	May 21 June 12 June 16 June 17 June 21 June 22 June 22 June 23 June 22 June 24 June 25 June 25 June 25 July 1 July 1 July 3 July 13 July 21 July 22 July 28	Payments Agreement (American interest) ...	126
(Record of conversation between Her Majesty's Ambassador at Washington and the United States Secretary of Treasury).			
71 Sir Roger Stevens ... (1) No. 85 E. (2) No. 1241 Sir Anthony Eden ... (3) No. 1203	Oct. 26 Oct. 29 Nov. 4	Payments Agreement ... Text of notes and letters exchanged.	143

SUBJECT INDEX

[The figures denote the serial numbers of the documents]

(a) General

ANGLO-IRANIAN OIL COMPANY—
Abandonment of claim for compensation—3 and 7.
ANGLO-PERSIAN OIL DISPUTE—
Settlement of the—2 (1)-(3), 5 (1)-(5), 8 (1)-(2),
11 (1)-(3), 23 and 27.
ANGLO-PERSIAN RELATIONS—6, 17, 18, 30 and 32.
ANNUAL REPORT ON THE HEADS OF FOREIGN MISSIONS
—35A.
COMMERCIAL AND ECONOMIC CONDITIONS IN PERSIA
—10.
COMMERCIAL RELATIONS BETWEEN PERSIA AND THE
FEDERAL REPUBLIC OF GERMANY—34.
COMMUNIST CONSPIRACY IN THE PERSIAN ARMED
FORCES AND POLICE—29.
COMPENSATION NEGOTIATIONS TO BE CARRIED OUT IN
ACCORDANCE WITH ANGLO-AMERICAN UNDER-
STANDING—19.
CONSTITUTION OF PERSIA, THE—22.
EVENTS IN PERSIA—SUMMARY OF—1.
FEELINGS IN PERSIA TOWARDS THE BRITISH—13.
INTERNAL SITUATION IN PERSIA—4.
MEMORANDUM OF UNDERSTANDING ON BASIS FOR THE
SETTLEMENT WITH ANGLO-IRANIAN—20.
NOTE COVER ACT BROUGHT INTO FORCE JULY 21, 1954
—28.
OIL INSTALLATION AT ABADAN—REPORT ON THE
MAINTENANCE OF—14.
OIL PROBLEM—UNITED KINGDOM PROPOSALS—9.
PERSIAN PARLIAMENT—APPROVAL OF THE TWO HOUSES
OF THE—26.
POLITICAL DEVELOPMENTS IN PERSIA—12.
POLITICAL SITUATION—BEARING ON THE OIL NEGOTIATIONS—16.
POLITICAL REPORTS—QUARTERLY—15, 21, 24 and 31.
SOVIET-PERSIAN AGREEMENT ON FINANCIAL AND
FRONTIER MATTERS—35.
SUCCESSION TO THE PERSIAN THRONE—33.
TURCO-PAKISTANI PACT—RELATIONS BETWEEN THE
SOVIET UNION AND PERSIA IN CONNECTION WITH
THE—25.

(b) Oil Negotiations

AGREEMENT ON FORMING A CONSORTIUM COMPANY
—44.
ANGLO-PERSIAN OIL NEGOTIATIONS—OBSERVATIONS
ON THE FUTURE OF—48 (1)-(2).
AUDIENCE OF SIR ROGER STEVENS WITH THE SHAH OF
PERSIA ON APRIL 22, 1954—38 (1) and (2).
AUDIENCE OF SIR ROGER STEVENS WITH THE SHAH OF
PERSIA ON JUNE 30, 1954—46.

CONSORTIUM DELEGATION AND THE PERSIAN GOVERNMENT—PRINCIPAL POINTS UNRESOLVED BETWEEN THE—41.
CONSULTATION OF NEGOTIATORS WITH THEIR PRINCIPALS—40 (1)-(3).
INDEPENDENT OIL COMPANIES—TREATMENT OF THE—50.
INTER-GOVERNMENTAL AGREEMENT WITH PERSIANS—PROPOSAL TO OBTAIN—47 (1)-(3).
MEETING IN GENEVA ON MAY 29, 1954, BETWEEN THE PERSIAN AMBASSADOR IN LONDON AND MR. EDEN—42 (1)-(2).
MIDDLE EAST OIL TALKS—51 (1)-(2).
OIL AGREEMENT—
Majlis approval on October 21—52.
Presentation to the Senate and to the Majlis—49.
Senate approval, October 28—53.
Signature of Act by Shah on October 30—54.
PERSIAN COMMENTS ON NEGOTIATIONS—45.
PROCEEDINGS OF OPENING MEETING HELD ON APRIL 14—36 (1)-(3).
PROGRESS OF NEGOTIATIONS—37, 39 and 43.

(c) Compensation Negotiations

CONVERSATION BETWEEN HER MAJESTY'S AMBASSADOR AND THE PRIME MINISTER OF PERSIA ON JUNE 28, 1954—59.
DISCUSSIONS IN LONDON ON JULY 24, BETWEEN THE ANGLO-IRANIAN OIL COMPANY AND HER MAJESTY'S GOVERNMENT—61.
METHOD OF MAKING PAYMENTS—64 (1)-(12).
INSTRUCTIONS TO HER MAJESTY'S AMBASSADOR—56.
SUGGESTIONS BY HER MAJESTY'S AMBASSADOR—55.
PERSIAN OFFER OF £25 MILLIONS—62.
REACTION OF HER MAJESTY'S GOVERNMENT AND ANGLO-IRANIAN OIL COMPANY TO PERSIAN OFFER—63 (1)-(3).
RESULT OF FIRST MEETING (APRIL 20, 1954)—57 (1)-(2).
RESULT OF SECOND MEETING (MAY 3, 1954)—58 (1)-(3).
RESULTS OF MEETINGS HELD ON JULY 22 AND 23—60 (1)-(2).

(d) Payments Negotiations

"HEADS OF AGREEMENT"—66 (1)-(5).
PAYMENTS AGREEMENT—
American interest in the—68 (1)-(2) and 70 (1)-(20).
Texts of notes and letters exchanged with Persians—71 (1)-(3).
PAYMENTS RELATIONS AND ARRANGEMENTS—65 (1)-(5).
RESIDUAL GUARANTEE—PROBLEMS OF THE—67.

FURTHER CORRESPONDENCE RESPECTING

PERSIA—PART 8

GENERAL CORRESPONDENCE

EP 10110/1

No. 1

SUMMARY OF EVENTS IN PERSIA, 1953

In 1953 Persia was at last relieved of the burden of Dr. Musaddiq. For seven months of the year he clung to power steadily increasing the number of his enemies and sustained only by his own tenacity and an increasing reliance upon the Tudeh. He rejected a further and generous offer made by Her Majesty's Government and the United States Government for the settlement of the oil dispute and thus accelerated the progress of Persian finances into bankruptcy. In his struggle to retain power he attacked in turn the Court and the Majlis and seemed to have overcome both, but the Shah at last summoned up enough courage to dismiss him. The arrangements made to enforce this dismissal miscarried, but a popular uprising and the devoted efforts of some loyal officers swept away Dr. Musaddiq and returned the Shah with greater prestige than he had previously enjoyed or then deserved.

2. General Zahidi formed a Government. Supported by an immediate grant of United States aid, he was able at least to check the deterioration of Persia's economy. He was hampered by the hesitation and jealousy of the Shah, who was responsible in particular for the mishandling of the trial of Dr. Musaddiq, but he maintained law and order with determination and inflicted serious reverses on the Tudeh. Both in internal and external politics he felt his way very cautiously, but by the end of the year he had put the extreme nationalists more or less in their place, had resumed diplomatic relations with the United Kingdom, and was approaching the oil problem in a manner which at least offered far better hopes of a settlement than had existed at any time since 1951.

3. The year opened with intensive oil negotiations in progress. At the end of 1952 Her Majesty's Government and the United States Government had elaborated fresh proposals and the United States Ambassador had returned to Tehran at Christmas to prepare the ground for their presentation. These proposals were, in essence, that the Persians should agree to international arbitration of claims for compensation and should grant a long-term sales contract to a new international company in which the Anglo-Iranian Oil Company would participate, receiving in return a payment of \$100 millions as an advance on purchases of oil by a United States Government Agency.

4. At first progress seemed possible. After exhaustive discussions with the United States Ambassador, Dr. Musaddiq moved forward on the issue of compensation. But on January 15 when the United States Ambassador presented him with the draft of an agreement he was in his most childish and unreasonable frame of mind, and his behaviour dashed all hopes of a settlement. On January 19 he replied with counter-proposals going back on a number of points which he had previously agreed and in particular refusing any compensation for loss of profits.

5. Although determined to reject the proposals of Her Majesty's Government and the United States Government, Dr. Musaddiq had internal political reasons for spinning out negotiations. He continued to summon the United States Ambassador and to go over the same ground. He was now reduced to open blackmail, but he made some impression upon the United States Administration with threats of Persian oil flooding the market at a 50 per cent. discount. Discussions followed between Her Majesty's Government and the United States Government, and on February 20 the United States Ambassador presented a slightly revised version of the proposals. Dr. Musaddiq was in a more reasonable frame of mind, but by March 4 he was asking the United States Government whether anyone could take their proposals seriously. On March 7 Her Majesty's Government and the United States Government stated publicly that they considered

their proposals eminently reasonable and had nothing more to offer. Dr. Musaddiq informed the United States Ambassador that this made further discussion useless and on March 20 he formally rejected the proposals.

6. His treatment of these proposals demonstrated finally that Dr. Musaddiq had no intention of reaching an oil settlement on anything except his own extreme terms. Even if these had been offered to him, he would no doubt have thought of others. Thereafter he showed little interest in the oil problem. The Persian Government offered the threatened 50 per cent. discount to anyone who would buy oil for dollars and succeeded eventually in exporting some 100,000 tons to Japan and smaller quantities to Italy. Persia's total oil exports during 1953 may have reached 200,000 tons, a figure to be compared with the 30 million tons a year exported by the A.I.O.C.

7. Throughout the whole of this period Dr. Musaddiq was in a state of open conflict with his political opponents. During 1952 he had dissolved the Senate, thoroughly intimidated the Shah and extorted full powers from the Majlis, but his combination of dictatorial methods and administrative inefficiency ensured that new centres of opposition continually replaced any which he suppressed. He had antagonised such extreme nationalists as Kashani, Makki and Dr. Baqai who had previously been his most effective supporters and thus created a new and in many respects more formidable opposition in the Majlis.

8. At the beginning of the year the immediate issues of internal politics were the extension of Dr. Musaddiq's full powers and the belief of many deputies that he would use his new electoral law to dissolve the Majlis. A resolution to restrain him was tabled on January 4, but he retaliated with a violent broadcast over Tehran Radio denouncing the sponsors of the resolution as foreign agents. He thus intimidated the Majlis into giving him a vote of confidence and proceeded to demand the extension of his full powers for a year. This provoked furious opposition and Kashani as Speaker declared the proposal unconstitutional. But Dr. Musaddiq had the great advantage of possession of the Government propaganda machine, and put it into immediate action to arrange a flood of telegrams from the provinces and meetings organised in his support. He broadcast again to declare that his full powers were necessary for the conduct of oil negotiations. He received a further vote of confidence from the Majlis and Kashani, who no doubt concluded that he was still too strong to be ejected, issued with him a joint statement stressing the need for unity.

9. A serious rift in the National Front was thus temporarily patched up, but it had lasted for two months and had shown a consistent pattern of opposing forces. Dr. Musaddiq had been supported only by the Fascist "Iran Party" and a splinter group of Dr. Baqai's "Toilers Party." He had had against him an alliance of the most formidable of the extreme nationalists and their supporters with the rank and file of Conservative members of the Majlis. Neither side had attempted to secure Tudeh support. The Tudeh was in fact marking time presumably seeing in Dr. Musaddiq the best possible guarantee of the collapse of Persia into chaos from which it might profit. The deterioration of the Persian economy naturally continued and the budget for the year beginning March 21, 1953, published on January 5, showed, despite Government statements to the contrary, a very considerable deficit.

10. The truce between rival factions of the National Front was of short duration, and early in February a number of Deputies resigned from its parliamentary group. Kashani clashed with the Government on the issue of prohibition and succeeded despite its objection in pushing a Bill through the Majlis. The increasing discontent of civil servants and army officers, of whom 1,200 had been retired by Dr. Musaddiq, was another useful weapon against the Government, and on February 22 a debate in the Majlis on the civil service ended in uproar.

11. General Zahedi, who saw himself as the next Prime Minister, was now active in promoting opposition. He was believed to have the Shah's support and Dr. Musaddiq decided that the time had come for the final elimination of the Shah. The Government propaganda machine began an increasingly violent campaign against the Court and, after an exchange of message through intermediaries, the Prime Minister had a stormy interview with the Shah on February 24. His threat of resignation was as effective as ever, and the Shah even promised to leave the country temporarily. His departure, which he also promised to keep secret, was fixed on February 28, but the news duly leaked out

SECRET

and produced an immediate reaction. There was still a genuine loyalty to the dynasty, and Kashani although by no means loyal, was not prepared to allow Dr. Musaddiq so far reaching a victory. He summoned an emergency meeting of the Majlis and soon had demonstrators out on the streets shouting slogans in support of the Shah. Under the leadership of retired army officers the mob made its way to Dr. Musaddiq's house from which he fled for safety in his pyjamas. But the Security Forces continued to obey his orders and soon regained control of the streets. By March 3 it was clear that he had survived yet another narrow escape. He had received useful support from the Tudeh which had staged counter-demonstrations against the Shah, but once he had re-established himself he was so ungrateful as to arrest a number of its supporters.

12. Dr. Musaddiq's position was nevertheless shaken by these events and, at the beginning of March, he was unable to secure his usual vote of confidence from the Majlis. He was thus forced to circumvent further parliamentary difficulties by instructing his supporters to boycott the Majlis with the result that no quorum could be formed. Having failed to expel the Shah he was, however, all the more determined to curb his powers still further and set up a "Committee of Eight" composed of Government and Opposition Deputies to consider differences between the Court and the Government. The committee's report emphasised that the Government and not the Shah was responsible for civil and military administration and its approval by the Majlis would have given Dr. Musaddiq complete victory over the Court. The report was debated in a closed session of the Majlis on March 12, but the Opposition adopted Dr. Musaddiq's own tactics of boycott and ensured that no quorum could be found for an open session. On April 6 Dr. Musaddiq broadcast an appeal for the approval of the report, and the Minister of Court retaliated on the following day with a Press Statement defending the Shah. The murder of his nominee, the Chief of Police, gave Dr. Musaddiq a stick with which to beat his opponents. He ordered the arrest of General Zahedi, who took refuge in the Majlis, and succeeded in forcing the resignation of the Minister of Court who had done his best to support and stiffen the Shah.

13. Although Dr. Musaddiq was still unable to force the report of the "Committee of Eight" through the Majlis (a further attempt on May 10 was foiled by the Opposition), he won a notable victory by insisting that the Shah should transfer the Royal estates to the Government. He was determined that the Shah should not acquire too much popularity by continuing to distribute land from these estates and he had his personal interests as a large landowner to consider. The Shah was now deprived of virtually all influence and received little support from his new Minister of Court. He had no contact with the Army or with the civil administration and remained on his Caspian estates appearing in Tehran only for formal business.

14. At this stage the Tudeh received great encouragement from a decision of the Civil Courts to acquit twenty-three of its members who had been condemned by a military court four years previously. The Opposition seized upon this as proof of an understanding between the Government and the Tudeh, and although the Government issued three separate statements denying this interpretation, public anxiety was by no means allayed.

15. Early in June the Government made yet another attempt to force the report of the "Committee of Eight" through the Majlis. The Opposition were again able to disrupt the proceedings, but on June 19 Dr. Musaddiq staged a large public demonstration in which Tudeh members played a prominent part and once again showed that he could rouse the rabble more effectively than any of his opponents. On July 1 he secured the election of one of his supporters as Speaker of the Majlis in place of Kashani, a considerable victory which, it seemed, would make it unnecessary for him either to attach or by-pass Parliament. But he suffered an even more serious reverse on July 12 with the publication of a letter from President Eisenhower refusing assistance to the Persian Government so long as it rejected an oil settlement on reasonable terms. This letter had an immediate effect on Dr. Musaddiq's position. There were interpellations in the Majlis on July 14 which he obviously felt unable to answer and he refused to attend the session. He began, instead, to threaten a referendum in which the people would be asked to choose between himself and the Majlis. With this threat he persuaded the majority of the Deputies to resign, and thus ensured the permanent absence of a quorum. On July 21 there were large demonstrations to celebrate the anniversary of the

SECRET

fall of Qavam's four-day Government in 1952 and Tudeh elements participating greatly outnumbered Government supporters.

16. On July 27 Dr. Musaddiq launched his referendum and the Opposition Deputies simultaneously took refuge in the Majlis. Since the Government had the full co-operation of the Tudeh and used every form of trickery and intimidation, it was not surprising that the results of the referendum, as announced on August 10, showed an overwhelming majority for Dr. Musaddiq. On August 14 he called upon the Shah to dissolve the Majlis in accordance with what he claimed to be the expressed will of the people.

17. But the Shah had at last been persuaded to take action and, on the evening of August 15, the Imperial Guard arrested several of Dr. Musaddiq's Ministers and delivered to him a copy of the Shah's decree dismissing him and appointing General Zahedi in his place. The plan miscarried not only because Dr. Musaddiq had been forewarned, but also because no arrangements were made to seize General Staff Headquarters. The Shah immediately fled in terror to Baghdad afterwards maintaining that he had done so only in order to avoid bloodshed.

18. Dr. Musaddiq at once issued a proclamation under his own authority dissolving the Majlis. Mass demonstrations against the Shah were organised and the Tudeh openly campaigned for a referendum to end the monarchy. But Dr. Musaddiq still hesitated to put himself entirely in the hands of the Tudeh. By August 18 the police had orders to break up its demonstrations and its co-operation with the Prime Minister naturally slackened.

19. The general public was alarmed and disgusted by the campaign against the Shah and the army although normally prepared to obey Dr. Musaddiq's orders had no personal loyalty to him. The Opposition Press contrived to continue publication, announced that General Zahedi still intended to form a Government and published facsimiles of the Shah's decree appointing him Prime Minister. Thus when, on the morning of August 19, royalist demonstrations started in the Bazaar there were many who were prepared to join in while the Tudeh and the army—the two forces which might successfully have counter-attacked—were not fully supporting Dr. Musaddiq. The royalists captured the radio station which allowed them to give the impression that they were the winning side, and by the evening of August 19 Dr. Musaddiq and his Ministers were in hiding. General Zahedi took over control and the large provincial centres quickly followed the lead of Tehran. The Minister for Foreign Affairs, Husain Fatimi, escaped arrest, but Dr. Musaddiq and his other Ministers were secured. The Shah reversed his flight which had taken him as far as Rome, and returned to Tehran on August 27. He was greeted with demonstrations of unusual enthusiasm.

20. General Zahedi's first task was to restore order, and he began an immediate drive against both the Tudeh and Dr. Musaddiq's remaining supporters. The Security Forces responded much better than might have been expected after the demoralising experiences of the last few years. Large quantities of arms and subversive literature was seized and many arrests made. The overt activities of the Tudeh came virtually to a standstill. Under cover, the party made determined efforts to form a united front with the many Persians who still considered Dr. Musaddiq the champion of Persian nationalism. They were encouraged by signs of dissension between the Shah and General Zahedi, principally over the control of the army, and the Shah's palpable hesitation in bringing Dr. Musaddiq to trial. But the Government continued to act resolutely against all attempts to organise demonstrations and strikes and their consistent pressure had its effect. The danger of a counter-coup steadily receded.

21. Although the Persian economy can bend almost indefinitely without breaking, more than two years of Dr. Musaddiq's rule had left the country's finances in a desperate state. But the new Government lost no time in publishing the full story and asking for help, and an appeal on August 26 to President Eisenhower produced very promptly a grant of \$45 millions and further Point IV aid. The crisis reached its peak in October, when at one time the Bank Melli nearly closed its doors, and thereafter the financial position steadily improved.

22. The Government made no attempt at any programme of significant reform; indeed, General Zahedi had picked his colleagues from his personal friends and supporters who had little interest in that direction. But they put United States

aid to reasonably good use and began slowly and not without reluctance a limited programme of public works to combat unemployment. The Shah resumed the distribution of land from his estates and the Government began a similar distribution of State lands.

23. The Government faced some formidable political problems in addition to the suppression of the Tudeh and of the remaining supporters of Dr. Musaddiq. Not the least was the existence of a rump of the Majlis (twenty-three members had never resigned) including such extreme nationalists as Kashani, Makki and Dr. Baqai who had broken with Dr. Musaddiq before his fall, but were very far from sympathy with the new Government. General Zahedi cajoled Kashani into reasonably good behaviour at the cost of allowing him considerable latitude, but Makki and Dr. Baqai moved rapidly into open opposition. All three were determined to keep the rump Majlis in existence and to pounce on the slightest deviation from the extreme nationalist policy on oil and foreign affairs. The Shah's jealousies and vacillations made such problems much more difficult for his Government. He opposed the obvious step of dissolving the Majlis and delayed until November 8 the trial of Dr. Musaddiq.

24. Against this background the Government began serious attention to the connected problems of oil and foreign policy. Relations with the United States improved overnight on the ejection of Dr. Musaddiq. The Government certainly wished to re-establish relations with the United Kingdom, but felt bound for internal political reasons to move very cautiously. Immediately after the change of Government the Shah had announced that the nationalisation of the oil industry remained his policy. He and General Zahedi certainly hoped for some concession on oil which would make the resumption of diplomatic relations with the United Kingdom more palatable to nationalist opinion.

25. During the latter half of October Mr. Hoover, the State Department's Oil Adviser, visited Tehran for explanatory talks on oil. He was able to make considerable progress in educating the Persian Government and gave to British officials in London a most useful account of Persian opinions and intentions. There followed a lengthy exchange of messages between Her Majesty's Government and the Persian Government through the intermediary first of the Swiss Government as Protecting Power and subsequently of the United States Ambassador in Tehran. The Persians still hankered after an oil settlement, at least in principle, before the resumption of relations, suggesting *inter alia* that a British emissary should visit Tehran incognito. It became a question of finding a formula to present the attitude of Her Majesty's Government in terms which, without compromising our legal case, would allow the Persian Government to claim that diplomatic relations could honourably be resumed.

26. Dr. Musaddiq's trial before a Military Court rapidly degenerated into farce. The Shah had apparently ordered that he should be given the fullest licence in his own defence and he was, therefore, allowed to indulge in interminable irrelevancies and to spend nearly two weeks in challenging the competence of the Court. The Government were, however, able to prevent the Persian Press from giving much publicity to his ravings.

27. On November 12 the Government had little difficulty in smashing a demonstration in support of Dr. Musaddiq organised by his supporters and the Tudeh. This success and the failure of an attempted strike marked the continuing improvement of public order and encouraged the Government towards a less timid approach to the resumption of diplomatic relations. The United States Ambassador in Tehran gave most valuable help in dispelling their hesitations. On November 25 the Foreign Secretary declared in Parliament that Her Majesty's Government were ready to recognise nationalisation "within the framework of an arrangement which, on the basis of justice and equity, satisfied the interests of the parties concerned." On December 5 a joint communiqué was issued announcing the resumption of diplomatic relations. Kashani called for a day of mourning and met with little response. The Government had to suppress disturbances in the university, but these were to be the last of any consequence. The Tudeh were not even able to mount a demonstration on the occasion, which must have been particularly galling to them, of the visit to Tehran of the Vice-President of the United States.

28. The Persian Government had receded considerably from their first positions and had recognised that the resumption of relations must precede oil negotiations, but it was becoming clear that they were most unlikely ever to agree

that the A.I.O.C. should return to Persia in its former position. On December 14 the A.I.O.C. began discussions with other major oil companies in London to explore the possibility of performing a consortium.

29. On December 21 as Dr. Musaddiq's trial was ending the Shah, determined as always to reinsure against all future possibilities, sent a public letter to the Court forgiving his former Prime Minister for his crimes. As a result Dr. Musaddiq was sentenced to only three years' solitary confinement. On the same day Her Majesty's Chargé d'Affaires arrived in Tehran and reopened Her Majesty's Embassy.

30. The year thus ended with direct contact resumed between Her Majesty's Government and the Persian Government. There was no doubt that all parties to the oil dispute were now genuinely anxious to negotiate a settlement. The Persian Government had restored public order effectively and United States aid had reduced Persia's economic and financial problems to manageable proportions. Conditions had at last been created in which the oil settlement which was essential to the interests of all concerned could be thought a practical possibility.

*Eastern Department,
Foreign Office.*

EP 1534/1

No. 2

(1)

SETTLEMENT OF ANGLO-PERSIAN OIL DISPUTE

Mr. Wright to Mr. Eden. (Received January 6)

(No. 15. Secret)
(Telegraphic)

*Tehran,
January 6, 1954.*

I had over an hour this morning with the Prime Minister and Entezam who acted as translator. The tone throughout was most cordial.

2. Zahedi began by expressing his desire to develop good relations with the United Kingdom and to reach a speedy oil settlement. He hoped we should be generous and be governed by strategic and not merely material and economic considerations. There were, he said, some hostile elements in the country, but on the whole there was much goodwill towards us.

3. I assured him that we were most anxious for a settlement, and fully appreciated that strategic importance of maintaining a strong and prosperous Persia. In insisting on our two principles of fair compensation and Persia doing no better than others, we were not governed solely by material interests; as a world Power, dependent on overseas supply for our food, &c., we were vitally interested in the protection of our overseas investments, and could not jeopardise these, and thereby our strength, by sacrificing principles which were as important to us as that of nationalisation was to the Persians.

4. I said that in our view the most practical and satisfactory solution would be the return of the Anglo-Iranian Oil Company, and asked Zahedi what was his view on this. He said that public opinion had been so inflamed against the Company in the past that this solution would be impossible. The Government could not face being accused of preparing the way for the return of the A.I.O.C.

5. I then raised the possibility of A.I.O.C. survey party visiting Abadan, pointing out that such a survey was a necessary first step. He answered that, provided the invitation came from the Persian side, he saw no objection to including some A.I.O.C. employees in a survey party which should, however, include other foreigners.

6. I then sounded him out on the idea outlined to me by Entezam on December 29 (my telegram No. 25) emphasising that I had no authority to suggest that Her Majesty's Government would necessarily accept a consortium. After some discussion he said he fully realised that foreign help would be necessary

SECRET

respecting the production as well as the marketing side, but that it would be necessary to camouflage foreign "control" in some way. He thought that some formula might be devised, adding that camouflage might be provided by the International Bank or, if we did not like that idea, by a group of Swedish or Swiss banks acting as an intermediary. He preferred the International Bank which could also serve as a source of credit for the Persian Government. In answer to my question he said employment of the bank would not conflict with Persian law.

7. He asked what Her Majesty's Government's views were on bringing in the International Bank. I replied that I could not say this would be acceptable to us, but we would most likely look sympathetically on any suggestion the Persian Government put forward. He said that so far the Persian Government had not approached the Bank, but they understood that the Bank would not object to playing this role. He pressed me to find out more of your views on the subject.

8. Zahedi asked whether I could give him some idea of the nature of the compensation we sought. I said I had been given no idea of any fixed sum; we wanted fair compensation to cover the loss of the A.I.O.C. enterprise in Persia, but I could assure him that we had no desire to bleed Persia white or to demand annual payments which she could not afford. Zahedi said it would be very useful if I could give him some further indication of our ideas on compensation and stressed more than once that in reaching a settlement he wanted to avoid recourse to the courts or arbitration.

9. I made the point, which Zahedi accepted, that in any settlement the A.I.O.C. must play a major role.

10. As in the case of my interview with Entezam, I found it difficult to pin Zahedi down, but he did say he thought the next step should be for the Persian Government to invite, possibly through the International Bank, a survey party including A.I.O.C. personnel to visit Abadan. This would help to prepare public opinion and thereafter representatives of this same group might start negotiations in Tehran.

11. It was left that His Majesty's Government would endeavour to get some more precise information on Persian ideas for me, while I in turn should seek further information from you on the question of compensation and the use of the International Bank.

EP 1534/3

(2)

Mr. Wright to Mr. Eden. (Received January 7)

(No. 18. Secret)
(Telegraphic)

*Tehran,
January 7, 1954.*

My telegram No. 15: Persian oil.

Since my arrival here I have taken every possible opportunity of sounding out my foreign colleagues, as well as the small foreign community and Persians regarding the possibility of A.I.O.C.'s return as such.

2. With the single exception of the Pakistan Chargé d'Affaires, who is not particularly bright, everyone with whom I have discussed the subject is firmly convinced that any attempt to bring back A.I.O.C. alone would be doomed to failure. As you know this view is held by the Prime Minister, the Minister for Foreign Affairs and the Minister of Court. The Minister of Finance voiced a similar opinion to me yesterday.

3. Unreliable as the Press here is, it has adopted a comparatively sober tone towards the oil problem during the time we have been here. However as I have already reported there is an underlying assumption in all their comments that A.I.O.C. will not be returning, as well as much criticism of A.I.O.C.'s alleged past misdeeds.

4. My only information about feeling in Abadan is based on one conversation I have had with a sensible and friendly Danish lady who was there just before Christmas, and a second-hand account of a Swede's impressions. Both agree that there is still great bitterness in Abadan against the British.

SECRET

5. There seems little doubt that there is still much latent support for Musaddiq throughout the country. No Persian Government in the foreseeable future can afford to ignore the nationalism which he stirred up. Abadan marks a turning-point for many Persians, who would I believe rather do without an oil agreement than allow a Government to bring back what they, however wrongly, conceive to be a foreign exploiter. The present Government appear to be well in control, but they lack popular support. It is my firm conviction that they would never agree to the return of A.I.O.C., badly though they want an agreement, and that they would be courting disaster if they did. Nor do I believe that they would accept a purely A.I.O.C. negotiating team.

6. As seen from here I consider our next move should be to inform the Persian Government as quickly as possible that we are prepared to forgo any insistence on 100 per cent. return of A.I.O.C., and are ready to participate in a production and marketing consortium, provided that A.I.O.C. have a major share in it. We should also state we appreciate the Persian Government's difficulty with public opinion, and in order to help them with this would be willing that the International Bank should act as an intermediary between them and the foreign consortium.

7. At the same time I think that we should tell the Persian Government how we envisage compensation being settled within this framework, since there is no doubt they are genuinely worried that this will prove the stumbling block to any agreement.

8. I should then hope to be able to encourage them to invite an international survey party to come out to inspect Abadan and the field as soon as this can be arranged. A definite decision on this would be a [group undecipherable] of their intentions and the visit itself is a hurdle, which the sooner they face the better. Properly handled it should add to their self-confidence and prestige and its findings should help in the educational process.

9. The United States Ambassador has scrupulously refrained from trying to influence me in forming a judgment. I know however that he is convinced that we cannot hope for the return of A.I.O.C.

EP 1531/14

(3)

To Mr. Wright (Tehran)

(No. 24. Secret)
(Telegraphic)
Guard.

Foreign Office,
January 8, 1954.

My telegram No. 20 and your telegram No. 18. [Persian Oil.]

I saw Sir W. Fraser and Mr. Gass of A.I.O.C. this evening and showed them your telegram under reference and your telegram No. 15. Report of discussion will follow. Meanwhile I should be grateful for your opinion on the following point.

2. It would be of great help to the A.I.O.C. if the Persian Government could agree that two or three representatives of the Company could go in the near future to Tehran for two or three days in order to form their own judgment as to the possibilities of A.I.O.C. returning 100 per cent. and if that did not seem possible as to the prospects for a consortium.

3. I told Sir W. Fraser that in my view it was highly unlikely that the Persian Government could agree to such a proposal and pointed out the obvious difficulties. I agreed nevertheless to ask your opinion which I should be glad to receive by Monday, January 11.

4. In forming it you should bear in mind that, as Sir W. Fraser himself agrees, it would be damaging to Anglo-Persian relations and to the Company itself if such an approach met with a rebuff.

5. You should not discuss this point with any Persian nor with your United States colleague.

SECRET

EP 1531/15G

No. 3

CONVERSATION BETWEEN THE SECRETARY OF STATE AND
SIR WILLIAM FRASER, THE CHAIRMAN OF THE ANGLO-IRANIAN
OIL COMPANY, ON JANUARY 8, 1954

Mr. Eden to Mr. Wright (Tehran)

(No. 4. Secret)
Sir,

Foreign Office,
January 8, 1954.

Sir William Fraser, the Chairman of the Anglo-Iranian Oil Company, came to see me today. Mr. Neville Gass, a Director of the Company, and Sir Pierson Dixon were also present. Sir W. Fraser earlier in the week had asked to see me. Subsequently the meeting was put off owing to his indisposition. It was at my request that he came today, since I was anxious to consult him about the conclusions reached by myself and my colleagues in regard to future steps in the Persian oil question.

2. I gave your telegrams, Nos. 15 and 18 to Sir W. Fraser and Mr. Gass to read. After reading them, Sir William said that he noted your view that our next move should be to inform the Persian Government as quickly as possible that we are prepared to forgo insistence on 100 per cent. return of A.I.O.C. and are ready to participate in a consortium provided that A.I.O.C. have a major part in it. It would be a very serious step to abandon the full claim of A.I.O.C. The step was serious not only for the Company but also for Her Majesty's Government. You had only been in Tehran a very short time. Was it not premature to come to the conclusion that there was no hope of A.I.O.C. getting back? Ought we not to take more time and make more investigation before coming to so serious a conclusion?

3. Sir W. Fraser went on to propose that, as a next step, the Persian Government should be asked whether they would agree that representatives of the Company should go out to Tehran to form their own judgment on the possibilities of A.I.O.C. returning and the prospects for the forming of an international consortium if this did not seem possible.

4. I agreed that it would be a serious step both for the Government and for the Company to abandon the claim of A.I.O.C. to go back 100 per cent. to Persia. From a prestige point of view the latter would of course be ideal. I wondered whether, however, from a practical point of view it was so desirable. Did the Company really

want to go back into Persia alone? Would it not suit them better to share the responsibility with other major oil companies having interests in the Middle East provided that they could obtain a 50 per cent. share and adequate compensation? The Cabinet, with whom I had had a preliminary discussion yesterday, felt that an arrangement on these lines would be politically acceptable on the assumption that it would be impracticable for A.I.O.C. to return 100 per cent.

5. Sir W. Fraser said that he was prepared to admit to me privately, though he begged that this should go no further, that he would prefer an arrangement such as I had described. The question, however, was how we could best attain it. If we threw away our cards too quickly he was afraid that we should not get there. He was confident that his American oil colleagues would agree that A.I.O.C. participation in a consortium should be 50 per cent. or something near it. He did not feel the same confidence with regard to the State Department or even Mr. Hoover. He anticipated great pressure from that quarter. Then there was the question of our negotiating position with the Persians. At present, he thought, this was unsatisfactory. There was no basis of agreement on the essentials for a consortium. The oil companies would certainly insist on effective management of production: your conversations with Persian Ministers indicated, however, that the Persians were far from conceding this. Further, and this was the point which worried Sir William most, the whole negotiation, as things stood at the moment, would proceed from the assumption that the A.I.O.C. were "bad boys." All these considerations led him to consider that more time should be spent on educating the Persians and trying to prepare a more satisfactory basis for a possible consortium. It was with this in view that he was anxious that, as a next step, representatives of the company should visit Tehran.

6. I said that I saw the value of Sir William's proposal. But everything we had

SECRET

51653

heard from you, and earlier from Mr. Henderson, indicated that, however unjustly, the A.I.O.C. was still very unpopular in Persia. Dr. Musaddiq and his ideas still had a powerful following, and the Shah was only too prone to pay attention to them. The Persian Government, who were not popular in the country, would in my view certainly refuse to accept a mission from A.I.O.C. for fear of its effect on the internal situation. Even to put the proposal to them might be a mistake, since they might well interpret it as a change of policy on our part, and if they refused the request great damage might be done not only to Anglo-Persian relations but to the prospects for an oil settlement. Sir W. Fraser agreed that it would be a mistake to court a rebuff. The chief point was that the Persians should accept in advance that it was the A.I.O.C. who would take the initiative with the other companies in forming the consortium. It was also desirable to know in advance that the Persians would agree to A.I.O.C. taking a prominent part in the negotiations for a consortium.

7. I told Sir W. Fraser that I saw this point and was inclined to agree that we should be well advised to get the basis for the negotiations clearer. We might perhaps, in addition to the points mentioned by Sir William, try to get prior Persian agreement to the A.I.O.C. share being 50 per cent., though this was largely a matter of tactics and it might be better to confine ourselves to getting Persian agreement to the A.I.O.C. having a major share. Another point on which of course it would be useful to obtain prior Persian agreement would be to a survey of Abadan.

8. I suggested that you might be asked for your opinion on the likelihood of the Persian Government agreeing to representatives of the Company visiting Tehran; and failing that, whether it would be possible to bring the Persians to agree to something on the following lines: supposing that we were willing to work for a consortium, do the Persians accept that A.I.O.C. will take the initiative in forming such a consortium and would they be willing to negotiate with the consortium? You could also be asked your opinion on the possibility of obtaining prior Persian agreement to the further range of questions which we had discussed.

9. Sir W. Fraser agreed with my suggestion, although he would prefer to ask you the first question (about a visit to Tehran by representatives of the A.I.O.C.) before putting the second to you. I accepted this and said that I would despatch an immediate telegram to you on the first question. We agreed that as soon as your reply was received, the Foreign Office and the other Departments concerned would consider it in consultation with the A.I.O.C. and, if it proved negative, would consult on the drafting of the second question.

10. In conclusion, I said that it seemed to me that it would be desirable at an early stage for the Company to resume their conversations with the other oil companies. Sir W. Fraser agreed, though he seemed to think that it would not be possible at the moment to make any advance arrangements.

11. I am sending a copy of this despatch to Her Majesty's Representative at Washington.

EP 1015/5

No. 4

THE INTERNAL SITUATION IN PERSIA

Mr. Wright to Mr. Eden (Received January 12)

(No. 2. Confidential) Tehran,
Sir, January 7, 1954.

I have the honour to submit a preliminary report on the internal situation in Persia. Much of it is based on views expressed by the United States Ambassador and members of his staff who have gone out of their way to be helpful since we arrived. My own views are necessarily still tentative.

2. General Zahidi's security measures seem sound and unprovocative. The security forces are loyal, their morale is good, and the National Front leaders and hangers-on are discredited, at least temporarily. Interest in Musaddiq's position is subsiding since the policy of full publicity was reversed, though legal proceedings may drag on from one appeal to another. He

SECRET

still enjoys considerable popularity, but it is unlikely that he would ever again command the power that he did; if he ever succeeds in returning to office he is likely to find himself being used more and more by others, either extreme Nationalists or the Tudeh, and possibly by both at the same time. Ayatullah Kashani is lying low after his unsuccessful efforts to stir up popular feeling against our return; some consider him a spent force, but it is difficult to believe that he will give up so easily. Fatimi, Musaddiq's Foreign Minister, perhaps the most dangerous member of the old National Front group in spite of his unpopularity, is in hiding and is to be tried *in absentia*. Baqa'i of the Toilers' Party and Makki are attempting to intrigue against the Government and against us, but so far have not much to show for their efforts. The Tudeh Party, which has been little in evidence since we arrived, and which the Government continue to combat with some determination, is not now considered an immediate threat by the Americans.

3. The country as a whole is quiet. The Government clearly appreciate that control of Tehran is all-important. There are reports that elections may be held in Tehran after the rest of the country so that additional security precautions can be taken here. It may also be that the Government wish to prevent the tone of the new Majlis being set by the Tehran deputies who would, as you know, Sir, otherwise be able under the Constitution to assemble provisionally, pending the arrival of their provincial colleagues.

4. The start of the elections is continually being announced, but it is likely to be some time before they are completed. My United States colleague has been approached by a number of candidates seeking American support. He has firmly represented that Persian elections are not his affair, but has nevertheless urged on both the Minister of Court and the Minister for Foreign Affairs the need for good candidates. I have, of course, taken the same line in reply to one or two feelers put out towards this embassy and done my best to discount rumours that the Americans are rigging the elections against us. The United States Embassy appear reasonably confident that the 18th Majlis will be an improvement on its predecessor (it could hardly be worse) and consider that there is a fair chance of the Government being able to control it.

5. Poverty and destitution are as apparent as ever, and there are complaints about the

high cost of living. But a good harvest and United States aid have tided the Government over. Mr. Nasser, the Governor of the National Bank told me recently that the financial and economic situation was relatively stable and could be expected to remain so until the end of the current Persian year on March 21. Thanks to American aid the budget was balanced, Government employees and security forces were being paid regularly, and the National Bank was gradually building up its cash reserves from the dangerously low level of a few months ago. Basic food stocks were good, although lack of transport was holding up distribution. Mr. Nasser thought the first severe strain would be caused by the usual one month's bonus of salary and wages paid to Government employees for the Persian New Year. On the other hand, the Head of the United States Point Four Office, who is administering the United States aid programme, seems fairly confident that the money will last until May.

6. Barring assassination, therefore, General Zahidi's position in the coming months appears secure, provided that he and the Shah can work together. They have had their differences recently. First over the trial of Musaddiq, when the Shah's intervention against his Prime Minister's wishes was instrumental in obtaining a very light sentence. Secondly, over the selection of candidates for the Majlis. It appears that though they were originally agreed on this question, the Shah subsequently objected to a number of the Prime Minister's candidates. Thirdly, I understand that the Prime Minister has remonstrated with the Shah for sending me emissaries, on whom I have reported separately, behind his back. The Shah is by nature incapable of placing complete trust in one man, particularly in his Prime Minister, and too much should probably not be made of reported differences between him and General Zahidi. So far they appear to have been able to settle their differences reasonably satisfactorily and there is some hope that they will continue to do so.

7. It is clearly in our interest, as well as in Persia's, that the present régime should continue. That is not, of course, to say that General Zahidi is perfect—according to the United States Embassy he is often unwise in his choice of colleagues and advisers—nor that it will prove easy to reach a settlement of our differences with him, since the damage done by Musaddiq cannot easily be undone. But any alternative régime, and

SECRET

51653

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particularly any reversion to the Persian sport of making and breaking Governments, could only be for the worse. People here have vivid recollections of the days before Musaddiq's fall when the Tudeh showed their strength openly. General Zahedi has restored order. To maintain it he must have the Shah's continued support, for he himself lacks any popular following as yet. The United States Ambassador and I are making it clear at every available opportunity that

frank co-operation between the Shah and his Prime Minister is vital to stability and to the solution of the country's problems.

8. I am sending copies of this despatch to Her Majesty's Representative at Washington, Bagdad and the British Middle East Office at Fayid and at Beirut.

I have, &c.

D. A. H. WRIGHT.

EP 1531/16

No. 5.

SETTLEMENT OF ANGLO-PERSIAN OIL DISPUTE

(1)

Mr. Eden to Mr. Wright (Tehran)

(No. 35. Secret)
(Telegraphic)

*Foreign Office,
January 13, 1954.*

Your telegram No. 25 [January 10: Persian Oil]. The Company have accepted your view that it would be undesirable to ask the Persians to accept an A.I.O.C. mission. They are calling a Board meeting on Thursday (January 14), at which the Directors will be asked to agree now to accept the idea of a consortium as the basis of a possible settlement.

2. I have considered, in consultation with the Company, the recommendation in paragraph 6 of your telegram No. 18 but my colleagues and I would prefer to proceed in a slightly different way.

3. It seems to me that what we need to do as soon as possible is to give the Persians an indication that we no longer insist on a 100 per cent. return of A.I.O.C., that we are ready to see what progress can be made towards their preference for a consortium and that the problem of compensation would, we might hope, be resolved without need for arbitration. If we were to go into any greater detail, mentioning for example such major difficulties as control of production, the share which A.I.O.C. might have in a consortium and the possibility of International Bank participation, we might well invite Persian objections or even intransigence at the start. It might also be that we should find ourselves drawn into negotiations with the Persians before we are in agreement with the United States Government and the other oil Companies concerned regarding the type of eventual settlement that we should all like brought about. Persian ideas are perhaps not likely to improve until the facts of the whole situation are clearly apparent. Our tactics should, I think, be to take the initiative, state simply what we are doing to meet the Persian views as explained to you by Zahedi and Entezam and then come forward with firm proposals when we have the Americans behind us.

4. It would, I believe, be preferable therefore for you to be instructed to give the Persians as brief as possible a reply, and that in general terms. Your statement might be on the following lines:—

"Her Majesty's Government have considered the reports of my conversations with Persian Ministers.

It appears that the Persian Government wish a solution to be sought on the basis of the participation of several Companies in a group rather than that of a single Company. The A.I.O.C., with the approval of Her Majesty's Government, are therefore resuming their talks with other Companies in order to see whether it is feasible to form such a group, in which A.I.O.C. would have an appropriate share and which would be in a position to negotiate a comprehensive settlement with the Persian Government.

It is the hope of Her Majesty's Government that the settlement would embrace all features of the problem and would thus avoid the necessity of any submission to arbitration."

SECRET

5. The Persians might well ask:—

(a) What is meant by "an appropriate share" for A.I.O.C.?

(b) Does the last sentence of the statement imply that compensation would not be at issue?

(c) Why is there no mention of International Bank participation? We (the Persian Government) mentioned to you that this would make any solution more acceptable to our public opinion.

(d) What, if any, degree of foreign management would be entailed by a consortium solution?

(e) What about the idea of a survey at Abadan?

6. The line that could be taken in answer to all these questions might be that until A.I.O.C. and the other oil Companies concerned have gone thoroughly into the whole proposition, it is not possible to say exactly what would or would not prove feasible from the practical point of view of the international oil industry. For the moment, we must all keep open minds on the many complex problems involved, and shall see our way more clearly only when we know the results of the consultations between the oil Companies. You could however reassure the Persians that, without prejudice at this early stage, the last sentence of the statement is in fact intended to cover the compensation problem, since it is permissible to hope that a comprehensive settlement would dispose of the problem in such a manner as would avoid both recourse to arbitration and the placing of a heavy burden on Persian economy. But we can give no firm assurance yet since, as I say, we first have to ascertain the reaction to the consortium proposition of the Companies that might join the group. You will have to make clear, as opportunity offers, that until a settlement is reached anything which is said must be without prejudice to the Company's claims.

7. If the Persians were to ask what Companies might participate, you could reply that they would be those already holding Middle East oil interests and thus able to make a positive contribution towards restoring Persian oil to its traditional markets.

8. As regards the omission of the International Bank, for your information this is because we still have an open mind and the oil Companies do not welcome the idea of Bank participation. It may eventually prove necessary, but at this stage we would prefer you not to be drawn into discussion of the merits and demerits of a solution under the aegis of the Bank.

9. Please let me have your comments urgently on this possible line. It will be necessary for me to inform the United States Government of it before you speak to the Persians. See my telegram No. 182 to Washington.

EP 1531/16

(2)

Mr. Eden to Sir Roger Makins (Washington)

(No. 182. Secret)
(Telegraphic)

*Foreign Office,
January 13, 1954.*

My telegram No. 35 to Tehran.

Assuming Wright agrees generally with this, I shall instruct you to show the State Department the text of the statement (paragraph 4 of my telegram under reference) that he would be making to the Persians, and to offer the explanation of our tactics which is set out in that telegram.

2. It will be essential in the view of myself and my colleagues that you should also tell the State Department that by "an appropriate share" for A.I.O.C. is meant 50 per cent. It is indeed only just that they should, and it is a fact that they are in the best position to absorb Persian oil. There is moreover British public opinion to be considered, and the standing of A.I.O.C. in the Middle East. The Persians for their part have so far not disclosed the share which they contemplate that the Company should have. But Wright has at least made clear to Zahedi and Entezam, without their demurring, that A.I.O.C. would expect to play a major part in a solution. This then is a matter on which my colleagues and I feel strongly and, although I think it would be bad tactics to tell the Persians at this

51653

SECRET

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stage what we have in mind, I am most anxious that the United States administration should be in no doubt.

3. It will be desirable that you should at the same time assure the State Department that the Company recognise the desirability of speed. If, as we may assume, the Board approve a change of policy at their meeting on Thursday (January 14), invitations to the other Companies to resume discussions would at once be sent out.

EP 1531/16

(3)

Mr. Wright to Mr. Eden (Received January 13)

(No. 38. Secret)
(Telegraphic)

*Tehran,
January 13, 1954.*

Your telegram No. 35.

I agree, and have little doubt that the Persian Government will recognise this as a useful step forward.

2. Unless you see any objection I propose, when making the statement, to emphasise that in taking this step both Her Majesty's Government and the Company are making a large concession to Persian opinion.

EP 1531/29

(4)

Mr. Eden to Mr. Wright (Tehran)

(No. 44. Secret)
(Telegraphic)

*Foreign Office,
January 14, 1954.*

Your telegram No. 38 [January 13: Persian Oil].
I entirely agree with the proposal in paragraph 2.

2. At this morning's meeting, the Board of A.I.O.C. decided that "a solution adequately protecting the Company's claim for compensation should be sought along the lines of a consortium in which the Company would have a 50 per cent. interest."

3. As soon as you hear from me or Mr. Henderson that the United States Government concur (see my telegram No. 226 to Washington) you should speak to the Persian Government on the lines of my telegram No. 35 [January 13] and paragraph 2 of your telegram under reference.

4. Before actually issuing invitations to the other oil Companies for a resumption of their talks, A.I.O.C. are anxious to be assured that you will be able to speak to the Persian Government within the next few days. Please give me the earliest possible indication of the time at which you will be acting.

EP 1531/29

(5)

Mr. Eden to Sir Roger Makins (Washington)

(No. 226. Secret)
(Telegraphic)

*Foreign Office,
January 14, 1954.*

My telegram No. 182 [of January 13].

As you will see from my telegram No. 44 to Tehran, the Board of A.I.O.C. have taken their decision and I have instructed Wright to speak to the Persian Government on the lines of my telegram No. 35 to Tehran and paragraph 2 of Tehran telegram No. 38 as soon as he receives American concurrence.

2. Please now speak with the State Department in the sense of my telegram under reference. I much hope that the Americans will not find it necessary to raise points on the terms of the statement that is to be made to the Persians. I do not want anything to delay action in Tehran and count on the earliest possible concurrence from the Americans.

SECRET

EP 1051/6

No. 6

CONVERSATION BETWEEN THE SECRETARY OF STATE AND THE PERSIAN CHARGE D'AFFAIRES ON JANUARY 19, 1954

Mr. Eden to Mr. Wright (Tehran)

(No. 9. Restricted). *Foreign Office,
January 19, 1954.*

Sir,
The Persian Chargé d'Affaires called to see me this afternoon when he brought me messages from Mr. Entezam, the Persian Foreign Minister, and from Mr. Ala, Minister of Court, whom I have known for many years. Both these were couched in very friendly terms. Mr. Afshar said that he had been instructed to ask for the Agrément on Mr. Soheily and I told him his request would be submitted to Her Majesty as soon as possible and that we hoped to be able to let him have a reply in about a week.

2. Mr. Afshar went on to express his Government's satisfaction that relations had been resumed and their confidence that we could now enter upon a period of close friendship between our two countries. I told him that this was exactly what I had in mind. As he knew, I had personally very friendly feelings towards his country and that it had

distressed me that, owing to events which we need not go into, our relations had suffered so badly. We were at work upon the oil problem and I hoped before long to be able to address a further communication to his Government on this subject.

3. Mr. Afshar thanked me and expressed his confidence that, difficult as the oil problem was, it could be resolved. The whole feeling between our two countries was now entirely different and once there was a real basis of understanding difficulties could be overcome.

4. Mr. Afshar was very friendly and made a good impression.

5. I am sending copies of this despatch to Her Majesty's Representative at Washington and the Head of the British Middle East Office at Fayid.

I am, &c.

ANTHONY EDEN.

EP 1531/24

No. 7

DECISION TAKEN BY THE BOARD OF DIRECTORS OF THE ANGLO-IRANIAN OIL COMPANY ON JANUARY 14, 1954, CONCERNING THEIR CLAIM FOR COMPENSATION IN RESPECT OF THEIR INTERESTS IN PERSIA

Mr. Eden to Mr. Wright (Tehran)

(No. 10. Confidential) *Foreign Office,
January 20, 1954.*

Sir,
In my telegram No. 44 of the 14th of January I informed you of a decision taken on that day by the Board of Directors of the Anglo-Iranian Oil Company.

2. I now enclose copies of a letter from the A.I.O.C. communicating that decision to the Foreign Office and of the reply sent by Sir Pierson Dixon.

3. I am sending a copy of this despatch to Her Majesty's Ambassador at Washington.

I am, &c.

ANTHONY EDEN.

Enclosure No. 1

*Britannic House, E.C. 2,
14th January, 1954.*

Dear Sir Pierson Dixon,

The Board of the Anglo-Iranian Oil Company met to-day and, after considering the full report on the present position, the Board decided that in all the circumstances a solution adequately protecting the Company's claim for compensation should be sought along the lines of a Consortium in which the Company would have a 50 per cent. interest.

I am sending this note down to you by hand this afternoon, as I am sure you will

SECRET

51653

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wish to know the result of our Board Meeting forthwith.

Yours sincerely,
(Signed) NEVILLE GASS.

Enclosure No. 2

*Foreign Office, S.W. 1,
January 15, 1954.*

My dear Gass,
Thank you for your letter of January 14 in which you were so good as to inform me that your Board, after considering a full report on the present position, had decided

that a solution adequately protecting the Company's claim for compensation should be sought along the lines of a consortium in which the Company would have a 50 per cent. interest.

The Board's decision was at once brought to the attention of the Secretary of State, who authorised the despatch to Tehran and Washington of telegrams containing the instructions of which you are aware.

Yours sincerely,
(Signed) PIERSON DIXON.

EP 1531/36

No. 8

SETTLEMENT OF ANGLO-PERSIAN OIL DISPUTE

(1)

Sir Roger Makins to Mr. Eden (Received January 22)

(No. 156. Secret)
(Telegraphic)

*Washington,
January 21, 1954.*

My telegram No. 136: Persian Oil.

The anti-trust obstacle was removed today by a decision of the National Security Council. Hoover has telephoned to say that the official letters authorising the companies to go ahead will not be in their hands for four or five days, but that they will now be ready to accept invitations from A.I.O.C. Hoover is leaving for London on Saturday.

2. The administration are hoping to keep this news out of the Press until they have had an opportunity of explaining their decision to Congressional leaders. They are trying to convene a meeting for this purpose tomorrow morning.

3. I hope to send fuller details tomorrow.

EP 1531/36

(2)

Mr. Eden to Mr. Wright (Tehran)

(No. 67. Confidential)
(Telegraphic)

*Foreign Office,
January 22, 1954.*

Repeated for information to: Washington, UKDEL, Berlin.

Washington telegram No. 156 [January 21: Persian Oil].

You should now make to the Persian Government the statement set out in paragraph 4 of my telegram No. 35 [January 13], subject to the amendment suggested in paragraph 1 of Washington telegram No. 112 [January 15].

EP 1534/4

No. 9

STATEMENT TO MINISTER FOR FOREIGN AFFAIRS OF OUR PROPOSALS REGARDING THE OIL PROBLEM

Mr. Wright to Mr. Eden (Received January 23)

(No. 66. Secret)
(Telegraphic)

*Tehran,
January 23, 1954.*

Repeated for information to Washington.

Your telegram No. 67. Oil.

I made a statement to the Minister for Foreign Affairs this morning and left a copy with him. Although not surprised he was clearly pleased and recognised it as a big step forward.

2. He asked no questions on it but said he would probably want to see me again after he had discussed it with the Prime Minister and the Shah.

SECRET

3. I made the point that, until a settlement is reached, anything I said was without prejudice to Anglo-Iranian Oil Company claim.

4. Entezam said that in so far as any publicity was necessary it was important that we and the Persian Government should march in step. I told him there would be no publicity for my statement but that it would be impossible to keep the Company's meeting secret and undertook to ask that you should give me advance warning of anything to be announced either in London or Washington. As mentioned in my telegram No. 40, this is a matter of considerable importance for the Persian Government and we should do all we can to help them on this.

5. We agreed that in answer to Press enquiries here, no more should be said than that I had had an important discussion on oil.

Foreign Office pass immediate to Washington as my telegram No. 11.

EP 1103/1

No. 10

COMMERCIAL AND ECONOMIC CONDITIONS IN PERSIA

Mr. Wright to Mr. Eden (Received January 26)

(No. 6 E. Confidential) *Tehran,
January 23, 1954.*

In my despatch No. 4 E. of the 16th of January I attempted to describe financial affairs in Persia since General Zahidi came to power. I now have the honour to report on commercial and economic conditions in this country during recent months as far as I have been able to ascertain them.

2. I enclose two statistical tables⁽¹⁾ drawn from official Persian sources, one of Persia's foreign trade for the year 1331 (ending March 20, 1953) and the other for the six months March 21–September 22, 1953. The latter figures are somewhat misleading as they do not include the period when Persian export activity is at its height. A noticeable feature of them both is the large increase in Japan's share of the import and export trade here in the past year. The German and the United States percentages of trade show relatively little change. The United Kingdom share of the import trade, although hardly above one-third of what it was some three years ago, is still not as low as one might have expected. Our share of the export trade on the other hand is small. The position of the Soviet Union does not appear to have changed significantly.

3. During Dr. Musaddiq's term of office the steady devaluation of the rial stimulated the export trade and incidentally provided useful revenue for the producers of export commodities. This trend has now been deliberately reversed by the Government through two successive revaluations of the rial, designed to encourage merchants to purchase American-aid dollars and thus

bring in much-needed cash to the Bank Melli and the Exchequer.

4. This policy has not, however, been particularly successful so far. At this time of the year it is normal for importers to be cautious in their ordering pending the issue of the new quota regulations at the Persian New Year. This trend has been accentuated by the feeling that revaluation has not yet finished, a feeling for which the Government must bear much of the responsibility. At each stage of the revaluation so far they have spoken of the new rate being valid for a few months only instead of fixing it for a longer period. To encourage the sale of exchange I understand that the Bank Melli is now guaranteeing letters of credit opened with United States aid dollars against any eventual fall in the rate. Importers opening such a letter of credit deposit 50 per cent. of the total rial value of the exchange on the understanding that the balance to be paid when the letter of credit is taken up by the foreign exporter will be only the amount needed to bring the total rial outlay to 100 per cent. of the value of the exchange at the rate ruling when the letter of credit is taken up. This technique is apparently beginning to have some effect.

5. The political effects of the revaluation of the rial are important. Many merchants, seeing their lucrative export business diminish, are looking back to the *laissez-faire* days of Dr. Musaddiq with regret. And the decline of export activity has caused a reduction in the flow of money to

⁽¹⁾ Not printed.

SECRET

primary producers throughout the country, a development which is also no doubt being interpreted to Dr. Musaddiq's advantage.

6. As far as I can see, there is no shortage of basic commodities in the country. The big importers hold relatively large stocks of most goods but these are being taken up on little more than a day-to-day basis by the smaller wholesalers and the retailers. The last harvest was good and there is sufficient food in the country for normal consumption. In spite of the stock position the prices of many commodities are rising, partly because cash is being brought out again with the increasing confidence in the country's financial stability and also because imports contracted for at previous high rates of exchange are coming on to the market. There are signs of discontent at the high cost of living.

7. There is also the danger, particularly during the winter, that serious local shortages might develop because of the poor distribution system. I have been told by a usually reliable source that because of the appalling condition of the track the average speed on the Tehran-Khorramshahr railway is now some 25-30 kilom. per hour compared with the speed in better times of 55 kilom. per hour. Oil-tank trains are being given priority over all other traffic but even so the lift of oil products by rail is at present said to be only about two-thirds of the estimated requirements of 75,000 tons monthly. Reliable information on distributed stocks of oil products is difficult to obtain but a recent report, which I believe to be accurate, spoke of Meshed having only five days' supply at hand. The road-tanker fleet of the National Iranian Oil Company (N.I.O.C.) is in poor condition due to poor maintenance and the shortage of spare parts, and the N.I.O.C. has asked the United States authorities for a larger allocation of tin-plate so that it can make

more use of conventional transport for distributing supplies.

8. Private road transport also is in no position to meet the demands made upon it and the Persian Government are beginning to use army lorries to move food supplies. An indication of the serious economic effects of the poor distribution facilities is the presence in the southern ports of large quantities of sugar which could be retailed profitably at 20 rials per kilog. when prices of up to 35 rials per kilog. are still being paid in many parts of the country. The administrators of United States aid have financed the purchase of some 800 medium and heavy lorries but it will be many months before these arrive. And rehabilitation of the railway, even when rails and ties are available, will be a long business. To do it thoroughly would, I am told, take two to three years.

9. The general economic picture, therefore, although not desperate, is certainly not a cheering one for a Government which lacks any wide measure of support. If they can get through the winter without serious disruption of supplies or a runaway rise in prices they should be able to hold the position for some time. But they will not be able to take positive measures to alleviate poverty and put new life into the economy generally before they begin to receive money for oil, whether in the shape of advances or from actual sales, in appreciable amounts.

10. I am sending copies of this despatch to Her Majesty's Representatives at Washington, Moscow and the British Middle East Office, Fayid and Beirut, the Lords Commissioners at Her Majesty's Treasury, the Board of Trade and Export Credits Guarantee Department.

I have, &c.

D. A. H. WRIGHT.

EP 1531/41

No. 11

SETTLEMENT OF ANGLO-PERSIAN OIL DISPUTE

(1)

Mr. Eden to Mr. Wright (Tehran)

(No. 75. Secret)
(Telegraphic)

Foreign Office,
January 26, 1954.

Guard.

It seems clear that we must expect further American pressure, from the State Department if not from the United States oil Companies concerned, to reduce the A.I.O.C. share in the consortium. The argument may well take the form that the

SECRET

Persians would never agree to a 50 per cent. share for A.I.O.C., plus participation by Shell, in a consortium with any effective measure of control over the operations within Persia, since in Persian eyes this would amount to restoring British control over Persia's oil industry.

2. Neither Entezam (paragraph 4 of your telegram No. 25 (dated December 29, 1953) nor Zahedi (paragraph 9 of your telegram No. 15 dated January 6)) demurred at your statement that A.I.O.C. must play a major rôle in a settlement. It may be however that the sort of settlement which they then had in mind was one in which foreign concerns should deal only with marketing.

3. It would be useful if you could let us have forthwith your assessment of the Persian attitude towards the size of A.I.O.C. participation in the kind of consortium we contemplate, and if thereafter you would let us have any further indications of it as they become available, without of course making any approach to the Persians on the point.

EP 1534/7

(2)

Mr. Wright to Mr. Eden (Received January 28)

(No. 79. Secret)
(Telegraphic)

Tehran,
January 28, 1954.

My telegram No. 77: Oil.
Ali Suhaili called this morning.

2. He has been attending the recent meetings of the Oil Commission and told me that they were still undecided whether to make counter proposals in answer to my statement. He asked my views on the rôle independents and the Anglo-Iranian Oil Company should play in a consortium and on compensation.

3. I told him that we were not expecting any counter proposals from the Persian Government and that I thought it would be wise for the Persian Government not to take up any fixed position or make any proposals but to await the outcome of the inter-company discussions in London; if a consortium proved possible negotiations could take place and then was the time for the Persian Government to put forward any proposals they might wish to make.

4. I stressed and explained our strong objection to the inclusion of independents in the consortium. In answer to his other question, I spoke along the lines of paragraph 6 of your telegram No. 35.

5. I was unable to draw him much on the Persian views concerning the rôle of the Anglo-Iranian Oil Company in a consortium but he did indicate that they accepted the fact that the company must play a major part. I explained that the greater the part the easier it would be for Her Majesty's Government and easier from the point of view of a financial settlement.

6. He mentioned that one of the biggest difficulties from the Persian point of view was foreign management and he hoped we would take account of these difficulties. He said that this matter was being debated by the Oil Commission and gave the impression that, on the whole, they were taking a realistic view of its necessity but were undecided how to dress it up for public consumption. He mentioned that one school of thought favoured the use of the International Bank, but that he had urged caution before committing themselves to this.

7. He said that he regarded the statement I had made on January 23 as an indication of our good will and as having "opened the door" to the Persian Government. Both the Shah and Zahedi had expressed their satisfaction to him over it.

SECRET

EP 1531/42

(3)

Mr. Wright to Mr. Eden. (Received January 28)

(No. 80. Secret)

Tehran,-

(Telegraphic)

January 28, 1954.

Guard.

Your telegram No. 75: Oil.

The guiding principles for the Persian Government will almost certainly be that no single country or company should have a controlling interest in the consortium.

2. I have had no occasion to discuss Shell with the Persians, but my impression is that they regard it as a British concern. Unless we can effectively convince them that Shell is in fact Dutch, I think it most unlikely that they will agree to 50 per cent. Anglo-Iranian Oil Company plus Shell.

3. Some weeks ago Entizam told Miss Jablonski of the *New York Journal of Commerce* that he favoured a consortium in which the French held the balance between British and American companies, and said that he regarded Shell as British.

4. I think we shall have to fight hard to get 50 per cent. for A.I.O.C., but nothing that has been said to me so far makes me think that this would be impossible if we have the Americans behind us. You realise, however, that I have not been in a position to take any real soundings on this important point. As I see it now we should do our utmost to hold the line on it, but I would not recommend that it can safely be made a breaking point.

5. In my discussions Entizam and Zahedi had a marketing consortium in mind, but given that they come to accept a joint production and market consortium, I believe they would still recognise that A.I.O.C. should play a major role.

EP 1015/14

No. 12

POLITICAL DEVELOPMENTS IN PERSIA DURING THE LAST SIX MONTHS AND THE OUTLOOK FOR THE NEAR FUTURE

Mr. Wright to Mr. Eden. (Received February 16)

(No. 9. Confidential)

Tehran,

February 12, 1954.

Sir,
In my despatch No. 2 of the 7th of January I had the honour to submit a preliminary report on the internal situation in Persia, which was largely based on impressions gained from the United States Embassy here. It is now nearly eight weeks since this embassy was reopened on the resumption of diplomatic relations between the United Kingdom and Persia, and Her Majesty's Ambassador will be arriving shortly to take up his appointment. It may be useful, therefore, if I attempt my own assessment of the political developments in Persia during the past six months and of the outlook for the near future.

2. Dr. Musaddiq in his last few months of office was leading the country with increasing momentum towards disaster. The finances were in a chaotic state, and the direction of events was passing more

and more into the hands of the Tudeh Party. Dr. Musaddiq's fall was nevertheless almost fortuitous. The Shah had already left the country, after the failure of his attempt to replace Dr. Musaddiq with General Zahidi, when a last-minute demonstration in the Shah's favour suddenly and to all appearances spontaneously swept all before it.

3. When he fell Dr. Musaddiq was largely discredited if only because of his growing powerlessness *vis-à-vis* the Tudeh Party. He might have remained so if he had not been brought to trial in the full glare of publicity. Although his performance in court was not very effective the trial seems to have revived amongst the Persian people a great deal of the popularity which he had previously enjoyed. For two years he had been for them a symbol of national aspirations. By propaganda, and particularly by the speeches he himself made over the radio,

SECRET

he had brought himself into contact with the masses in a way which had never been experienced before in this country. And his disregard, if not contempt, for those members of the governing classes who would not co-operate with him had not passed unnoticed by the long-suffering majority of the population.

4. General Zahidi, when he took over, quickly restored order and, thanks to prompt financial aid from the United States, soon stabilised the finances and, to some extent, revived economic activity. Security is good. There is martial law with a mid-night curfew, but this has been a regular feature here for the last few years and troops are less in evidence than they were on a number of occasions during Dr. Musaddiq's time. The security forces are actively seeking out the Tudeh, and arrests are regularly reported, but it is unlikely that these measures have so far seriously disorganised the Communist movement. A disturbing feature of the Government's security measures is the over-readiness to arrest persons suspected of anti-Government activity on the basis of slender evidence. The incident in the university not long before our arrival, when three students were killed, also seems to have been largely due to an excess of military zeal.

5. The Government have induced respect by their firmness, but they lack any appreciable measure of active support. Leaving aside the Tudeh, the majority of the people probably still favour Dr. Musaddiq in spite of his policies or lack of them. The professional Tehran politicians show little inclination to modify their traditional behaviour of negative criticism of and intriguing against the Government in power. The not unfounded reports of corruption in Government circles and the Prime Minister's choice of his Cabinet colleagues who are, with a few important exceptions, military men or persons with few qualifications for their particular posts, have not helped his cause amongst the more realistic and sensible Persians who would like to see their country set on a constructive course. One encouraging sign, however, is that a good proportion of the persons of this kind regard General Zahidi's Government, with all its failings, as the only feasible one. Even the inveterate intriguers have so far hesitated to suggest alternatives.

6. The Government's record so far has been fairly promising considering the legacy they inherited. After some hesitation they

definitely showed courage in resuming diplomatic relations with Her Majesty's Government, and they are now tackling the oil problem constructively and with an appreciable degree of realism. Their recent decision agreeing to the oil companies' proposal to send a technical survey mission to Abadan was made extremely quickly and was a sign of their growing self-confidence and determination to act. Until now their efforts have been mainly concentrated on rescuing the country from disorder and patching up the worst of the damage done by their predecessors. They can hardly be expected to do anything more constructive without considerable revenues from oil, a point which is beginning to be more widely appreciated here. But the Government cannot hope to reach a reasonable oil settlement and to begin to put the country on its feet by their own efforts alone.

7. Much depends on the Shah. After leaving Tehran last August with what must have been little hope of returning he suddenly found himself swept back on a wave of popular enthusiasm. Almost all experienced observers here, both Persian and foreign, are agreed that this enthusiasm was generated more by the Persians' deep-rooted feelings for the institution of the monarchy than by any strong sentiments in favour of the person of the present Shah. Unfortunately His Majesty has, I understand, interpreted it largely as a demonstration of personal affection. This and the doubtful quality of much of the advice he receives from his court have not made it easy for him to make an accurate appraisal of the present state of the country. Moreover, he has always shown distrust of his Prime Minister of the moment and the fact that the present one is a military man probably tends to make him even more distrustful.

8. Nevertheless, the Shah and his Prime Minister seem so far to have managed to resolve the various differences that have arisen between them. But there are reports of continuing friction which, if allowed to develop, could once again plunge the country into chaos. One of our major tasks here should therefore be to promote harmony between the Shah and the general.

9. If they work together the task of handling the Majlis should be noticeably easier. If they do not, the Majlis, notwithstanding that the great majority of the members will have been sponsored by either the Government or the court or both, will probably lose little time in

SECRET

indulging in disruptive and irresponsible manoeuvres. Over one-half of the 136 members have already been elected. There are many old faces, but a fair proportion of the new Deputies will be taking their seats for the first time. It seems to be accepted that, a quorum having been established, the Majlis could assemble now on a preliminary basis, but it is generally believed that the Government will not inaugurate it before the elections have been held in Tehran. On present form these are expected to begin in a fortnight or so, after the results of the Senate elections in the capital have been announced. (Votes for these are being counted, and Dr. Musaddiq and other candidates supporting him are said to be well behind.) If this programme is adhered to, the Majlis could conceivably meet before the Persian New Year on the 21st of March. If they are wise, the Government will, however, postpone the inauguration until after the New Year holidays to allow themselves at least to begin oil negotiations in an atmosphere undisturbed by parliamentary proceedings.

10. The United States Embassy's present opinion is that an oil agreement would

probably stand the best chance of acceptance if it were presented to the Majlis early in its life before too many members have had time to strike attitudes. I myself have, of course, no first-hand experience from which to judge, but from what I have read and heard of previous sessions of the Majlis I am much inclined to agree with this view, even though this could be interpreted as a manoeuvre to force an agreement through.

11. I have no doubt that any hope of reaching a reasonable settlement and getting it ratified will depend to a large extent on the Government's continuing to keep a firm hand on affairs and on the Shah's giving his Government the fullest possible support. It is in his own and the country's interest that he should do so, but this in itself is, unfortunately, no guarantee that he will.

12. I am sending copies of this despatch to Her Majesty's Representatives at Washington, and at the British Middle East Office, Fayid and Beirut.

I have, &c.

D. A. H. WRIGHT.

EP 1051/12

No. 13

FEELINGS IN PERSIA TOWARDS THE BRITISH

Mr. Wright to Mr. Eden. (Received February 16)

(No. 10. Confidential) *Tehran, February 13, 1954.*
Sir,

In my despatch No. 9 of the 12th of February I endeavoured to assess political developments in Persia in recent months. I now have the honour to submit my impressions of the feelings in Persia towards the British. I am very conscious that it is hazardous to do this at the best of times and my very short experience here makes it even more so, but it should, I think, be attempted at this time. The complicated ways of the Persian mind do not make the task any easier.

2. While we cannot hope to re-establish friendly relations on a firm basis until the oil question is settled, progress towards a settlement will depend partly on our ability to restore belief in our goodwill. The first task, obviously, is to gain the confidence of the Persian Government. In this we have,

I think, had some success. I am told that the Prime Minister and the Minister for Foreign Affairs have, following our acceptance of the consortium idea, been agreeably impressed by Her Majesty's Government's approach to the oil question; and that they are pleased with the embassy's discreet behaviour, such as our refusal to entertain intriguers; and with Her Majesty's Government's willingness not to insist on the introduction of senior staff with previous Persian experience, a point on which I find them still somewhat sensitive.

3. Against this must be set a certain coolness on the part of the Shah. Nettled by my refusal to negotiate with his emissaries behind his Government's back, he refused to see me until two nights ago when he gave a reception to celebrate the anniversary of his wedding, from which it would have been difficult to exclude me. In the

event he showed himself agreeable and friendly. I hope to have made some progress towards convincing him of our goodwill in the course of a conversation on which I am reporting separately.

4. Although articulate public opinion in the Western sense does not exist here, public emotions, stimulated by Dr. Musaddiq, have found expression in recent years more readily and more continuously than before. The Nationalist hysteria of the last two years will not easily be forgotten, nor will its predominantly anti-British focus. Outward appearances are misleading. The press is becoming increasingly cordial, but it is rarely a reliable guide and certainly not under the present Government's censorship, indirect though it is. In the first few weeks the natural caution of all but a few Persians made them reluctant to meet us, but many, including members of the Government, are now adopting a more forthcoming attitude. Some of these are genuinely friendly, the others only professedly so. Even those who are reputedly Anglophobe have been studiously polite. I have received only one threatening letter (unsigned), and we have encountered no hostile demonstrations. Anti-British outbursts have come only from professional haters, such as Ayatullah Kashani and Navab Safavi of the Fidayan-i-Islam.

5. The superficial impression, therefore, is that anti-British feeling in Persia is not deep-rooted or widespread and might be regarded merely as a relic of Dr. Musaddiq's propaganda. On the other hand, some friendly and informed observers maintain that most Persians distrust us and many actively dislike us. This view is expressed too often and too convincingly to be ignored. Its components consider that, apart from the fanatics, our most determined enemies are to be found among the younger educated Persians of what elsewhere would be the middle classes. These may not have amounted to much in the past, except as trouble-makers, but their influence is bound to be felt increasingly. Amongst the mass of the people, which is not capable of any but the rudimentary processes of political thought, Dr. Musaddiq's action against the Anglo-Iranian Oil Company (A.I.O.C.) and the embassy was regarded as a national victory. This is a fact which we should not forget. Our return and the resumption of talks on oil are bound to revive their suspicions which, given the opportunity, could once again be fanned into active dislike.

6. Criticism of the British is based on the often distant past. There exists a genuine belief that the British in recent decades have failed to comprehend the true interests of Persia and have at times behaved as if Persian feelings could, in the last analysis, be disregarded. The 1907 Anglo-Russian Agreement and Lord Curzon's 1919 Treaty will, for many years to come, remain at the back of the Persian mind, the one as proof of our duplicity, and the other of our disregard of Persia's susceptibilities. Specific charges levelled at us are—

- (a) interference by the company and by British authorities in Persia's internal affairs;
- (b) the "three voices" of British policy in Persia, those of the company, the previous Government of India and the Government of the United Kingdom in that order of importance;
- (c) the "colonial" treatment of Persians by the British in general and the A.I.O.C. in particular.

As regards criticism (a) many Persians are firmly convinced that the embassy and the company had and used the power to make and break past Persian Governments and to influence Government appointments even at the lowest level. Criticism (b) is less easy to apply to the present day, though fears are expressed that the A.I.O.C. will, as they put it, continue to dictate to Her Majesty's Government. It explains the Persian Government's reluctance to readmit "old Persian hands" since they fear that such people cannot help but be contaminated by the past. It is also sometimes argued that the United Kingdom, which has so many social and political achievements to its credit in its own country and elsewhere, has rarely if ever in recent years shown its true self in British policy towards Persia; (c) is the criticism most often voiced and the most difficult to refute. Episodes such as the refusal of the then British Club in Tehran to admit Persians, even as visitors, until the late Shah forced them to do so by legislation have left their mark. A further example, which I have heard quoted by Persians who knew Abadan in the A.I.O.C. days, was the existence of social barriers between the British and the Persian employees. The facilities provided for the Persians were often excellent but it is the discrimination, in contrast to the equality with which many

of them were treated as students in England, which is remembered.

7. The situation is complicated by a continuing and widespread belief in our mystical and all-pervading powers. For example, I have received a letter from an editor asking me to ensure his election to the Majlis for Khorramshahr "or any other district which I may deem convenient." I am told that, whatever I might reply, the gentleman in question would probably lay his electoral success or failure at our door. This attitude helps to explain certain curious Persian theories such as that there is a British Tudeh Party distinct from the Soviet-inspired party (a belief recently expressed to an American journalist by the Minister of Court, Mr. Husain Ala), and that Dr. Mussadiq is a British agent.

8. Xenophobia, corruption, intrigue, agitation and a strong inferiority complex are at the root of the Persians' suspicion of all foreigners. Indeed, they find it very difficult to trust each other. Given their character, it is only natural that they should distrust particularly those countries which have long been closely connected with their own. As I have said above, we have no direct evidence that anti-British feeling in this country is still serious. But the second-hand evidence seems to me convincing, and I have no doubt that it will take much

patient work to impress the Persians with our good faith. Some, of course, will never be persuaded.

9. Persuasion will not be easy. The Persians must have someone to blame for their own shortcomings, and we seem to have become well established as one of the principal whipping-boys. The Russians, who probably share this rôle with us, are nearer and more frightening, and fear in Persia is a great inducer of outward respect.

10. In present circumstances there is little positive action which we can take to influence opinion. It is encouraging that the Government appear to be making genuine efforts to depict us favourably. But a reasonable oil settlement will do more than any words, provided that its benefits soon become apparent in readily tangible form throughout the country. It is also, I believe, incumbent on this embassy to make a great effort to broaden its contacts with the university, the young intellectuals, and the growing middle classes of the country.

11. I am sending copies of this despatch to Her Majesty's Representatives at Washington and at the B.M.E.O., Fayid, and Beirut.

I have, &c.

DENIS A. H. WRIGHT.

EP 1532/5

No. 14

REPORT ON THE MAINTENANCE OF OIL INSTALLATIONS AT ABADAN

Mr. Wright to Mr. Eden. (Received February 15)

(No. 136. Confidential)

*Tehran,
February 15, 1954.*

My telegram No. 113, paragraph 4.

Rieber, who returned from Abadan on February 12, has given his impressions in confidence to the United States Chargé d'Affaires. In case Hoover, who has been informed, has not told you, the following are the main points:—

- (a) Present production is 20,000 barrels a day.
- (b) Equipment, which can be looked after by external treatment, is in surprisingly good shape but there is much unused equipment on whose condition Rieber was unable to form a judgment.
- (c) A good job has been done by cannibalisation but there is urgent need for spares. For overseas [group undecipherable] equipment alone, Rieber estimates \$6 millions is required.
- (d) Between \$25-30 millions are required over the next two years to get the industry to a capacity of 20 million tons of refined product, plus 20 million tons of crude. At the end of twelve months the industry could probably produce 5 million tons of refined, plus 15 million tons of crude.

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- (e) Rieber was impressed with the quality of Persian technicians and, contrary to the views he held two years ago, estimates that only some 350 to 400 foreign technicians will be needed at Abadan with a further 75 to 100 in the fields. He considers it most important that the fullest use should be made of existing Persians alongside foreign technicians and that it would be politically most undesirable to turn them out of the houses they now occupy.

2. In a general statement made to the Press on his return, Rieber stated that he was very satisfied with his visit and congratulated the Persian engineers on the admirable maintenance of the installations. The Press also quotes members of the surveying party as saying that the installations have been efficiently maintained.

3. Rieber's assistant, Davenport, a lawyer, arrived here on February 13. According to the Press he is to advise on compensation and other legal problems.

4. Rieber is leaving here on February 18 to attend to personal business in America, but he expects to return on February 25.

EP 1018/1

No. 15

PERSIA: QUARTERLY POLITICAL REPORT

Period October-December 1953

When General Zahidi came to power in August 1953 it was uncertain how long he would stay in power, what his policy would be and who would support him. By the end of the year there were fewer ambiguities. General Zahidi was not a caretaker, to be replaced by the Shah's whim or overturned by a Tudeh conspiracy: his policy was to maintain order and to work for an oil settlement; he had eschewed the support of the anti-Musaddiq Nationalists; and he still relied primarily on the security forces.

2. This clearer picture nevertheless had plenty of shadow in it; the Government were unpopular, and had no obvious achievement of domestic reform to set against the loss of Nationalist support. Economically, Persia was dependent on United States aid, which had been used purely to balance the budget, and the cost of living had mounted since Musaddiq fell; and the Shah, still jealous and suspicious of any strong Prime Minister, had not given the Government his full support or renounced his freedom to intrigue against them.

Internal Affairs

3. At the beginning of the quarter General Zahidi's Government were regarded by many as little more than a stop-gap which would not remain long in being. This encouraged the usual Tehran intrigues and the Government faced other serious internal problems, notably the continued

existence of the Tudeh, the trial of Dr. Musaddiq, the absence of a workable Parliament and the growing opposition of the extreme Nationalists such as Kashani, Baqai and Makki, who had broken with Dr. Musaddiq before his fall but were far from being in sympathy with the new régime. In all these problems General Zahidi had the greatest difficulty in carrying the Shah with him: for the ruler seemed to have learnt nothing from his narrow escape in August, was still reluctant to give loyal and wholehearted support to his Prime Minister and seemed always ready to exploit opportunities of weakening the latter's position.

4. The Government renewed their efforts to suppress the Tudeh, making little distinction between supporters of that party and those of Dr. Musaddiq, whose champions the Tudeh claimed to be and with whose remaining supporters they were co-operating. A further 200 persons were arrested on October 1. On October 4 a communiqué gave the military courts extensive powers to deal with Communist activity, and disorders in the university and the bazaar were firmly suppressed. Martial law was applied to the whole of the railway system. On October 20 three ratings of the navy were shot as saboteurs and two days later martial law was declared throughout Khuzistan. On November 3, after an alleged plot to assassinate the Shah, 300 more persons were arrested, including thirty naval officers and

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ratings. The Tudeh and Dr. Musaddiq's supporters concerted a final effort to organise strikes and demonstrations on November 12 after Dr. Musaddiq's trial had begun, but were routed by strong security forces.

5. Relative calm followed. The campaign against the Tudeh had not been fully successful, since the leaders had as usual escaped and there were still many Tudeh members in Government departments and the armed forces. But the party nevertheless had suffered a definite reverse, which was later identified by its failure in December to create serious disturbances during the visit of the Vice-President of the United States. Even if its hard core remained untouched, its overt activities were virtually at a standstill.

6. The Government were less successful in other directions. The Shah refused at first to dissolve the Majlis, twenty-three of whose members had never resigned; and General Zahidi himself apparently believed, perhaps naïvely, that the could govern more effectively with the support of a Legislature than without it. Sporadic parliamentary activity began with a meeting of the twenty-three members of the Majlis on October 1. Naturally enough they opposed a dissolution, and the Prime Minister himself preferred to increase the Majlis to eighty by holding elections in those fifty-seven constituencies where elections had not been completed in 1952. But the simultaneous informal meetings of the Senate (which the Shah had dissolved at Musaddiq's behest) aroused much opposition; and the revival of political activity emphasised the dangers of leaving the Nationalist demagogues with their parliamentary immunity, which would end only with a dissolution.

7. These men (Kashani, Makki and Baqai) were already beginning to constitute a new National Front. They were not yet in avowed opposition but were prepared to pounce upon any deviation from a "national" policy, particularly in the spheres of oil and foreign affairs. *Shahid*, the newspaper of Dr. Baqai and his "Toilers Party," was now in effect the only Opposition paper, all others having been either physically destroyed by the Shah's supporters on August 19 or suppressed immediately after. At first General Zahidi treated the Nationalist leaders gently, although he acted firmly against any of their supporters who disturbed the peace. In particular Kashani, with whom he had been

in close contact in the days of their common opposition to Dr. Musaddiq, was treated with some respect and allowed time on Tehran radio to propound his anti-British views.

8. The Government's rift with the Nationalists became complete over the resumption of diplomatic relations with the United Kingdom. Kashani first pleaded with, then threatened, the Government and finally called for a day of public mourning. Dr. Baqai and his newspaper *Shahid* went into open opposition. Except, however, for some university rioting, which was again firmly suppressed, there was no popular reaction. The suppression of *Shahid* left no overt Opposition newspaper and General Zahidi at last persuaded the Shah to dissolve the Majlis, in a decree of December 17 which also dissolved the Senate, whose previous dissolution was conveniently overlooked. The Government immediately set about staging elections, but ran at once into difficulties with the Shah and his relations over the nomination of candidates.

The Trial of Dr. Musaddiq

9. The trial was repeatedly postponed. The Shah as head of the armed forces claimed full control of the military court and insisted on a public trial. Notwithstanding the Government's repeated attacks Dr. Musaddiq's halo survived and the press reflected a widespread opinion that despite his failure he had led a "noble experiment."

10. The trial eventually began on November 8. After the first few days, during which the prosecutor made an effective case and the President kept control of the court, the proceedings degenerated, apparently as an effect of the Shah's solicitude for a fair trial: Dr. Musaddiq shouted, wept and fainted his way through interminable declamations, threatening hunger strikes and occasionally kicking his lawyer. His defence, in so far as he made one, was that legislation he himself had promulgated rendered the court incompetent to try him, that he had believed the Shah's *firman* of dismissal to be a forgery and that the Shah could not dismiss him without Majlis approval. As the trial was concluding, on December 21, the Shah again intervened with a published letter forgiving Musaddiq for his crimes in view of his earlier services to the nationalisation campaign which, the Shah declared, he himself still supported. The court sentenced Musaddiq only to three years' solitary confinement. Brigadier Riahi, the former Chief of Staff who was tried with Dr.

Musaddiq, was sentenced to two years' detention and dismissal from the army. Both immediately appealed.

Relations with Her Majesty's Government and the oil question

11. These two related problems were, naturally, the principal foreign preoccupation of the Persian Government, who showed at first little readiness to grasp either nettle. The United States Government, however, through their ambassador at Tehran, impressed on the Persian Government that an early oil settlement was essential to the health of Persia's finances and that to reach one, and to restore her international position, she should resume relations with Her Majesty's Government as soon as possible. The Persian Government, afraid of the still strong anti-British feeling, were inclined to want an oil settlement (or at least some understanding on oil) before a resumption of relations, while Her Majesty's Government preferred first to resume relations: that course was desirable on its own merits, and would facilitate oil talks.

12. Accordingly the Secretary of State sent on October 9 a private message urging an immediate resumption (in reply to a Persian court enquiry whose exact source was not clear) and on October 20, in Parliament, offered friendship and resumed relations.

13. Meanwhile, with the full agreement of Her Majesty's Government, the State Department's Oil Adviser, Mr. H. Hoover, Jr., had reached Tehran on October 17, in order to discover what solution to the oil question the Persian Government had in mind and to explain to them the facts of the world oil situation. The second task proved the easier. The Persian Government began to realise that the world was not crying out for Persian oil, that it could be sold only by the big companies and that the latter would not pay more for it than for other Middle East oil. But Persian ideas on a settlement proved extremely vague and impractical, nor did the Government, or the advisers they had summoned, accept the need for foreign management of production.

14. On leaving Tehran (November 3) Mr. Hoover visited London and found Her Majesty's Government preoccupied with the diplomatic side of the problem. The Persian Government in a message of October 30 had urged the need for some progress at least towards an oil settlement before

Persian public opinion would accept diplomatic relations: perhaps an unofficial British emissary might visit Tehran for the purpose (an infelicitous and unacceptable suggestion apparently emanating from the Swiss Minister in Tehran). In a reply dated November 14 the Secretary of State undertook to consider ways by which Her Majesty's Government could render a diplomatic resumption less unacceptable to Persian public opinion; and ten days later he sent to Tehran a draft communiqué. This, after announcing the resumption of relations, would express Her Majesty's Government's confidence that thereafter an oil settlement could be reached which would be just and honourable and take account of Persian "national aspirations." The Persian Government still hesitated; but internal law and order were now such as to increase their self-confidence, there was an encouraging reference by Her Majesty's Government to nationalisation in a Parliamentary answer on November 25, and, above all, Mr. Henderson, the United States Ambassador, continued unremittently to press them to accept Her Majesty's Government's proposal. Eventually, after securing rather perfunctory approval from a group of "elder statesmen" and the rump Majlis, they agreed to the issue of the communiqué on December 5. Mr. D. A. H. Wright, Her Majesty's Chargé d'Affaires, thereupon reached Tehran on December 21. (His conversations with the Persian Government had hardly passed the ceremonial stage by the end of the year, and nothing more will be said of them in this report.)

15. Meanwhile Her Majesty's Government had been considering, with the Anglo-Iranian Oil Company and the United States Government (represented by Mr. Hoover), what to do next about oil. The crux of the problem was the position of the Anglo-Iranian Oil Company. Mr. Hoover and the United States Ambassador at Tehran had reached the conclusion that the Persians would never again put their oil into the hands of that company, however disguised. Her Majesty's Government had no reason to disagree, but they owed it to the A.I.O.C. (who tended to suspect the United States authorities of interested motives) and to British opinion to see for themselves, through the reports to be sent by the chargé d'affaires, before deciding to work towards the multi-national consortium advocated by Mr. Hoover. Mr. Wright's instructions (Foreign Office despatch to Tehran No. 2

of December 17, 1953) were drafted accordingly.

16. It was fairly clear, however, what the tenor of Mr. Wright's reports on this point would be; and in order that a consortium solution, once decided in principle, should not be unduly delayed, the A.I.O.C., with the full approval of Her Majesty's Government, began on December 14 hypothetical and exploratory talks with the other main oil companies who might enter the group.

Other Foreign Relations

17. The relations of the United States Ambassador with the Persian Government remained extremely close; indeed, he was frequently called upon to mediate between the Shah and his Prime Minister. The visit to Tehran of the Vice-President of the United States from December 7 to December 9 was a success. General Zahidi also reversed Dr. Musaddiq's policy of squabbling with his immediate neighbours, and Persia's relations with Iraq and Turkey improved.

18. Although Communist propaganda consistently attacked General Zahidi, he maintained as correct relations with the U.S.S.R. as possible, though both Governments had occasion to complain of the other's press. Perso-Soviet negotiations "for a settlement of outstanding differences" were resumed at the end of the year but made no progress.

Economic

19. The grant in September of \$45 million of United States aid to Persia, over and above assistance under "Point IV" and other programmes, had just averted a serious financial crisis. At one time in October it appeared that the Bank Melli might have to close its doors, but the danger passed as United States aid and a good harvest took effect. The American aid was chiefly used, through sales of dollars for rials, to balance the ordinary budget; and

some dollars were used as cover for an additional note issue. But at least part of the rial equivalent was devoted to a programme of public works designed to reduce unemployment. The Shah resumed the distribution of Crown lands which Dr. Musaddiq had interrupted, and the Government began a similar distribution of State lands.

20. The Government's exchange policy was unwelcome to merchants who had profited from the *laissez faire* of Dr. Musaddiq, since his steady devaluation of the rial had stimulated exports and provided revenue for the producers of export commodities. General Zahidi's Government revalued the rial, in order to encourage purchases of United States aid dollars and thus to bring in cash. Despite resistance from merchants the Government were able to restore the cash holdings of the Bank Melli, which ended the year in a stronger position than at any time since 1951.

21. On November 8 the French Government granted a credit of 5,000 million francs for engineering goods to be supplied to the Seven-Year Plan. A credit of up to \$60 million was reported to have been offered by a group of German business men with possible further credit up to \$200 million. Her Majesty's Government were able to offer delivery on long-term credit of twenty-four locomotives which had been on order to the Persian railways in 1951. A decree designed to encourage foreign investment was promulgated on December 17.

22. The Persian economy was thus tided over a period of considerable danger, but Persia continued to live on charity. It was clear that within a few months she would face another economic crisis unless she secured more United States aid or an oil settlement capable of bringing her substantial revenues.

*Eastern Department,
Foreign Office,
February 26, 1954.*

EP 1534/49

No. 16

THE BEARING OF THE POLITICAL SITUATION IN PERSIA ON THE OIL NEGOTIATIONS

Sir Roger Stevens to Mr. Eden. (Received March 16)

(No. 16. Confidential)
Sir,

*Tehran,
March 13, 1954.*

It is normal for a new incumbent to give his first impressions a few weeks after his arrival. But circumstances at this post are peculiar. The eccentricities of the local political scene are thoroughly familiar. We are all new arrivals here, and Mr. Wright has already given you, in vivid and cogent terms on which I could not improve, his first impressions of the Persian attitude towards ourselves. Since at the moment the forthcoming oil discussions occupy not only most of our thoughts but also the centre of the political stage in this country, I have the honour to devote my maiden despatch to a brief analysis of the political situation in its bearing on the oil negotiations.

2. The articulate part of the Persian public has, I believe, realised that an oil settlement is desirable. They know in their minds that it is necessary if the budget is to be balanced, the development programme resumed, foreign trade and confidence re-established, and the country to pursue a progressive course rather than (at best) sink slowly into stagnation. Nevertheless, in their hearts they accept these hard facts reluctantly. The blow to their foolish hopes has left their nationalism still extremely sensitive. They were not as they see it on the wrong course, they were misled by Mussadiq slightly off the right one. After all they have endured at foreign hands in the past, they are entitled now to foreign sympathy and help to put them on the right course again. Nationalistic principles remain sacred—better an oilless economy than that these should be sacrificed. If the worst comes to the worst, they feel the Americans will bail them out yet again to stop them falling a prey to communism.

3. Over this welter of largely emotional but partly cynical reasoning, liable on the slightest pretext to break loose from any shackles of logic, there presides an assemblage of individuals which by no normal standards can be called a good Government. It enjoys no widespread support. It is drawn (like most Persian Governments)

almost exclusively from the top social layer. It has no clear cut programme, its personalities have little public appeal, and there are mounting reports of corruption. The Shah and the Prime Minister are intermittently at loggerheads, and the atmosphere is heavy with intrigue and mistrust.

4. But these shortcomings are largely endemic in the Persian scene. Against this chronic background, the Zahedi Government's merits are, in the view of many unprejudiced observers here, more conspicuous than its faults. It has shown itself level headed (e.g., in its recent dealings with Mussadiq) and not lacking in courage (e.g., in reopening diplomatic relations before an oil settlement). Since my arrival, the Ministers with whom I have had most to do have behaved very sensibly in not trying to precipitate issues, pump me for information or lobby for their own point of view in advance. They have engaged in quite a skilful campaign to educate public opinion on the oil question, but as regards ourselves, they have adopted an expectant and non-committal attitude which augurs well for their common sense. They realise that both their country's future and their own depends on a workable oil settlement, and they are prepared to exercise their considerable ingenuity to get it ratified by the Majlis and accepted by their own public.

5. The three Ministers principally concerned (other than the Prime Minister, who remains, to me at least, rather a shadowy figure) all have useful qualities. The Foreign Minister, M. Entezam, who will hold himself in reserve, has a straightforwardness of manner and a Western approach to problems which is remarkable in this country, and I find that my own instincts to trust him and deal quite frankly with him are shared by my diplomatic colleagues. The Minister of Finance, Dr. Amini (who will be chairman of the Persian delegation) is more typically Persian in appearance and, I suspect, methods; but he is intelligent and resourceful, commanding respect for his financial skill. The Minister of National Economy, Dr. Shadman,

appears more of a professor than a politician and I doubt if he is a forceful personality or carries much weight; but he has spent sixteen years in England, some of them as a member of the Persian oil commission. He understands Western ways and his obvious fund of goodwill is, I believe, genuine. What these Ministers lack from the point of view of the negotiations is a first-hand knowledge of the oil industry and technical qualifications generally. Their advisers (not yet announced) may not be of the same calibre.

6. I would sum up the background of the negotiations thus. We have to deal with a Government which is (by recent Persian standards) unusually well disposed, and to whose survival a quick agreement is essential. It understands the oil problem in broad terms, and is quite realistic about it, but cannot afford an agreement which does not look presentable. If, either in the course of the negotiations or at the time of the conclusion of an agreement, it appears to be selling the pass on any of the subjects liable to arouse mass emotions (the degree of Persian control and compensation are the obvious examples) it may be swept out of office. Any successor would either be more difficult to deal with or (more probably) would refuse to negotiate altogether. The only thing that can be safely assumed about a change of Government is, therefore, that it would lead to a breakdown of the discussions. Neither the economic nor the political consequences of a breakdown are pleasant to contemplate.

7. If this analysis is correct, it leads to certain conclusions about the conduct of the oil discussions. They should not be regarded as an ordinary negotiation, in which each side takes up positions which it does not hope to hold in order to be able to use them for bargaining purposes in the final stages. Such tactics, particularly if they reach the public ear—as they almost certainly would—could easily have the effect of pushing the Government over the abyss. I do not of course suggest that there will be no bargaining—part of the Persian Government's ingenuity will certainly be exercised in this characteristic

direction. But I believe that it will be mainly devoted to defending the outposts of positions which for political reasons they have to hold, rather than those which they are really prepared to abandon altogether. I hope that we can match their tactics in this respect, more particularly since a long haggle takes time, and time, I need scarcely stress, is a most precious commodity.

8. Again, in many negotiations, it enhances the prestige of one of the parties if he appears to be driving a hard bargain with the other. (Conversely the prestige of the other party is diminished if he succeeds.) I hope that no such considerations will operate in this case. The unusual feature of this negotiation is that it is necessary not merely to pay attention to the views of the other party if the agreement is to stick, but also to build up the other party's reputation if the agreement is to be ratified and executed. It will therefore be no ordinary trial of wits. I should compare it rather to a meeting of co-executors of the estate of an elderly crank as troublesome in death as in life. He has left an eccentric will to which the settlement must outwardly conform, but the executors are really engaged together in a conspiracy to interpret the will liberally enough to enable the monies to be invested in such a way as to bring maximum profit to all the beneficiaries. It is only at certain points that their interests directly clash. For the rest, they are engaged in a co-operative venture by the success of which all stand to gain.

9. I believe that this allegory represents something not too far removed from the spirit in which the Persian Government (not, be it said, from altruistic motives) is prepared to approach these negotiations. I hope that this spirit will be reciprocated, and for the same reasons, at least until the contrary is proved.

10. I am copying this despatch to Her Majesty's Representative at Washington and to the Head of the British Middle East Office at Fayid and Beirut.

I have, &c.

ROGER STEVENS.

EP 1051/18

No. 17

CONVERSATION BETWEEN THE SECRETARY OF STATE AND THE PERSIAN AMBASSADOR ON MARCH 17, 1954

Anglo-Persian Relations

Mr. Eden to Sir Roger Stevens (Tehran)

(No. 53. Secret)
Sir,

Foreign Office,
March 17, 1954.

The Persian Ambassador called upon me this afternoon to pay his first call. He is an old friend who has had a distinguished record of public service as Prime Minister and Foreign Secretary, as well as at several important Embassies. When relations were broken off eighteen months ago and he was withdrawn he declined to serve the Musaddiq Government.

2. Mr. Soheily was clearly very pleased to be back, but he spoke with some concern about the progress of the oil discussions. I said that I was sorry that it had been impossible to get the team out before Nau-ruz; the ten days' holiday in Tehran would have been invaluable for negotiations, but, unfortunately, one had to admit that the negotiations were excessively complicated and the figures concerned very large. The Ambassador accepted this and said he much hoped that the delay would not be long. The Persian Government and people were really anxious to settle the oil business and place their relations with the West, and particularly with Britain, on a lasting basis of friendship.

3. His Excellency then raised a number of detailed matters concerning the import of rails, export credits and other trade matters, pointing out that the Germans were very active in trying to secure the Persian market. These have been recorded separately.

4. The Ambassador finally referred to what he called the wider issues of our policy. He said that I would know how much his Government looked to me to help them now that our relations were resumed. The Shah had sent for him before he left and asked him to approach me on the direct question as to what were our desires for Persia's future. I said that these were simply stated; that Persia should be prosperous and independent. His Excellency then said the Shah had also asked for our advice about Persian armed forces. I replied that we had been in consultation with the Americans about this, and I thought that you would be giving the Shah a memorandum of our joint views in the course of the next day or two.

5. Mr. Soheily said that the Shah would be grateful for this, but there were still one

or two points he would like to put to us. Although the Americans had been very generous to them Persian friendship with us had lasted for centuries, and the Persians had special confidence in British advice. What were our views as to the policy Persia should pursue in respect of defence? and, in particular, should she join the Pakistan-Turkish pact? As regards the last question, I said that this was really a matter upon which no foreign Power, however friendly, could take the responsibility of pronouncing for Persia. I was perfectly conscious that Persia had a powerful northern neighbour, and the last thing that I would wish to do was to embroil Persia with her. There seemed to me to be two issues Persia had to decide, that of principle and that of timing. If, in principle, Persia thought it wise to associate herself one day with the Pakistan-Turkish friendship she might also think it wise to wait until she was a little stronger internally before doing so. The Ambassador said that this was exactly what the Shah thought. As to defence, there was little I could add to the paper we had submitted to the Shah. The oil settlement, the needs of Persia's economy, seemed to me to come first. If they were met then Persia's armed forces could certainly be developed beyond their present capacity and beyond the needs of internal security. But even in that event we thought that they should probably remain modest in size and should be careful not to acquire weapons which could not be put to good use either in defence or in internal security. Given the resumption of revenue from oil, a gradual improvement of Persia's defence capabilities should be possible.

6. The Ambassador thanked me and said that if he had further messages from the Shah he would trouble me again because His Majesty was most anxious that cordial relations which were now re-established should be developed to the advantage of both our countries. I told Mr. Soheily that I would always make myself available whenever he wished to see me.

7. I am sending a copy of this despatch to Her Majesty's Ambassador at Washington.

I am, &c.

ANTHONY EDEN.

EP 1051/21

No. 18

ANGLO-PERSIAN RELATIONS

Sir Roger Stevens to Mr. Eden. (Received March 23)(No. 13. Saving. Secret)
(Telegraphic)*Tehran,
March 19, 1954.*

My private audience with the Shah last night, given at my request, lasted for 75 minutes. Shah welcomed opportunity for informal exchange and opened his heart to me on a number of subjects and at considerable length.

2. First we spoke of oil settlement. I explained that London talks were still going on and it was, therefore, impossible as yet to say when the negotiating team would actually arrive. Conversations in London were taking rather longer than had been hoped but it was well that difficulties be sorted out now rather than later. Hitherto, discussions about the formation of a consortium had been exclusively between the oil companies. At this stage they were, I believed, also being looked at by the United States and United Kingdom Governments, *i.e.*, from a political point of view. I was sure that in this process Her Majesty's Government were bearing in mind need both for speed and for meeting Persian basic national aspirations. His Imperial Majesty said he was glad to know this and was sure that it was important. He said he thought management question soluble within framework of nationalisation law. According to him law (presumably some subsequent regulations not published in Command No. 8425) provides for nine directors, but there is no mention of their nationality. Some of them could, therefore, be of foreign nationality and this should give members of consortium the necessary degree of control. I merely remarked that I did not know what sort of proposals about management would emerge from London discussions. I thought there were various ways in which objectives of both sides might be reconciled. I thought that oil companies would attach a great deal of importance to ensuring that their control of production was effective. Otherwise marketing arrangements to which they were committed might break down. Shah still seemed to be thinking in terms of largely Persian-run company with considerable numbers of foreign technicians and proportion of foreign board members in contractual relationship with an international consortium marketing the oil. I indicated merely that companies' proposals were not likely to be on these lines, but I deliberately did not take the issue with him too strongly for fear of producing some ill-timed reactions in advance of actual negotiations.

3. Shah next turned to the question of Persian defence. He referred to United States memorandum (my Saving No. 12) and I took opportunity to confirm that we had been consulted and were in broad agreement. His Imperial Majesty again harped on comparisons between Persia and Turkey. He could not understand why former[sic] had been so strongly favoured with American aid. Admittedly, Turkey was more stable than Persia and might be considered to have better military tradition. He asked me, however, to remember two occasions in recent history when Persian people had shown themselves capable of forceful action: over Azerbaijan incident in 1946 and again on August 19, 1953. It was absurd to pretend that Turkey was in a more important position than Persia. Turkey merely protected the Eastern Mediterranean which Russia could reach by other means, whereas Persia stood between Russia and the main Middle Eastern supply route, not to mention oil. Any Turkey-Pakistan pact could have no significance without Persia. He was being told now that expenditure on defence of Persia must not outrun the possibilities of Persian economy. Had such considerations operated in the case of Turkey, potentially a poorer country? Were Western Powers in effect saying to Persia: as you have got oil you have to pay for your own defence? What would they have done about the defence of Persia if Persia had had no oil? He was tempted to believe that they might in these circumstances have been readier to help.

4. I threw in a number of remarks while Shah was pursuing this line of reasoning and concluded by saying that he could not expect me to answer a purely hypothetical question. One consideration of which he would not lose sight was that Turkey was a member of the North Atlantic Treaty Organisation. The significance of oil to Persian economy and hence to Persia's defence possibilities could certainly not be disregarded. He had had from the United States

SECRET

Ambassador some thoughts in answer to questions put last autumn and these also represented the views of Her Majesty's Government. No doubt whole question of Persia's place in a defensive system required further study. The last three years had not, for us at least, been a very propitious time to study it. With an oil settlement and emergence of a stable Persian Government I personally hoped that the matter could be looked at more closely than hitherto. I must, however, make it clear that, while the Americans could offer future financial help, we were in no position to do so.

5. My reference to stability touched off some constitutional reflections. Earlier in the conversation I had said, as proposed in my telegram No. 199, paragraph 2, that Her Majesty's Government had confidence both in His Imperial Majesty and Zahedi and looked forward to their close co-operation. While we were talking of oil settlement, Shah had agreed that present Government had a good understanding of the oil problem and indeed would prove the last Government (in point of time) with whom it would be possible for us to do business. Now, however, he qualified somewhat his approval of them by saying that, since I spoke of stability, the only stable element in the Persian Government was himself. It was apparently inherent in Persian political system that Governments came and went; he provided continuity to a greater extent than in an ordinary constitutional monarchy. Nevertheless, he realised that the country would gain by greater stability and for his part he was ready to give his maximum support to any Government which fulfilled certain conditions. These were:—

- (a) eliminate corruption;
- (b) "behave like Socialists even if they were not";
- (c) extend land reform ("I have given up my own wealth, it is now the responsibility of others to do the same");
- (d) introduce tax reforms to ensure that the rich paid taxes rather than (as at present) the poor;
- (e) not interfere with the army. It was essential that the army remained outside politics; to prove this, one only had to look at what happened in other Middle Eastern countries where armies corrupted by foreign agencies had made and unmade Governments. He did not suggest that this would happen in Persia, and he hoped to see to it that it did not.

6. As the hour was late I did not ask His Imperial Majesty how far the present Government in his view fulfilled these various conditions. If I had, I fancy that his answer, at least on (a) and (e), would have been unfavourable.

EP 1531/173

No. 19

**CONFIRMATION THAT NEGOTIATIONS BY HER MAJESTY'S
GOVERNMENT FOR COMPENSATION ONLY TO BE CARRIED
OUT IN ACCORDANCE WITH THE ANGLO-AMERICAN
UNDERSTANDING**

Sir Harold Caccia to Sir William Fraser. (Received April 29)

(Secret)

*Foreign Office,
April 6, 1954.*

I understand that you wish, in the documents which it is proposed to exchange with the other oil companies which are prospective members of the consortium, to refer to the fact that Her Majesty's Government will negotiate with the Persian Government a settlement of the question of compensation to the Anglo-Iranian Oil Company, in accordance with the understanding reached between Her Majesty's Government and the United States Government on this subject.

2. I confirm that this understanding is contained in a document drawn up by representatives of the United States Government and of Her Majesty's Government and dated the 26th of March, 1954.

SECRET

3. In accepting this understanding, the United States Embassy made three observations designed to "reiterate the general views which the United States Government had previously made known to Her Majesty's Government as follows:—

- (a) That a solution along the lines of a consortium appears to be the only feasible way of accomplishing United States and United Kingdom security objectives in Iran at this time.
- (b) While the United States Government is cognisant of the desire of Her Majesty's Government to obtain just and reasonable compensation for A.I.O.C. from Iran, it believes that every possible effort must be made to obtain a rapid, sound and durable solution.
- (c) The United States Government believes a commercially acceptable arrangement on a 50/50 basis is of paramount importance in minimising nationalisation elsewhere and will have fully as great an effect on other countries, if not much greater, than would compensation of the type contemplated by Her Majesty's Government."

4. With regard to (c) above, the representatives of Her Majesty's Government said that they did not share the United States view that an arrangement on a 50/50 basis would have as great, if not greater, an effect in minimising nationalisation elsewhere as would compensation: on the contrary they considered both to be equally important.

5. In spite of the exchange of observations (mentioned in paragraphs 3 and 4 above) the understanding remains that described in the document of the 26th of March.

HAROLD CACCIA.

EP 1531/185

No. 20

IRAN

Memorandum of Understanding on "Basis for the Settlement with Anglo-Iranian" following Discussions between Representatives of the following interests:

Gulf Oil.
Texas.
California Standard.
Jersey Standard.

Socony Vacuum.
C.F.P.
Royal Dutch Shell.
Anglo-Iranian.

1.—(a) The interests concerned (hereafter collectively called "the Consortium") will endeavour to make an arrangement (hereafter called "the New Agreement") with the Government of Iran which would be acceptable to each of those interests and which would enable Iranian oil to flow again into the world's markets on a commercial basis.

(b) it is understood that Her Majesty's Government will endeavour to come to a settlement (hereafter called "the Settlement") with the Government of Iran in respect of the claims and counter-claims of the Anglo-Iranian and the Government of Iran.

(c) In the course of the negotiations for the New Agreement and the Settlement,

the following releases and indemnities will be sought:—

(i) by the Government of Iran in favour of the Anglo-Iranian

(A) a release by that Government from all claims and demands of that Government in respect of any matter prior to the effective date of the New Agreement,

(B) an indemnity by that Government in respect of any claims and demands that may be made against the Anglo-Iranian by third parties arising out of the oil operations in Iran of the Anglo-Iranian prior to the events of 1951, and

SECRET

(C) an indemnity by that Government in respect of any claims and demands arising directly or indirectly from the events of 1951 that may be made against the Anglo-Iranian by third parties,

(ii) by the Anglo-Iranian in favour of the Government of Iran a release by the Anglo-Iranian from any claims and demands of the Anglo-Iranian in respect of any matter prior to the effective date of the New Agreement,

(iii) by the Government of Iran in favour of each of the Members of the Consortium and such of their affiliates as will enter into the New Agreement,

(A) a release by that Government from all claims and demands of that Government in respect of any matter prior to the effective date of the New Agreement,

(B) an indemnity by that Government in respect of any claims and demands that may be made against any Member of the Consortium (and their above-mentioned affiliates) by third parties arising out of the oil operations in Iran of the Anglo-Iranian prior to the events of 1951, and

(C) an indemnity by that Government in respect of any claims and demands arising directly or indirectly from the events of 1951 that may be made against any Member of the Consortium (and their above-mentioned affiliates) by third parties,

(d) It is the intention that, in so far as the foregoing releases and indemnities affect the Anglo-Iranian, they shall be included in the Settlement and, in so far as they affect the Consortium, they shall be included in the New Agreement. Her Majesty's Government will, therefore, negotiate those affecting the Anglo-Iranian with the Government of Iran and leave all others to be negotiated by the Consortium. If, however, it appears to Her Majesty's Government during the course of negotiations that it would be appropriate and desirable that they negotiate the other releases and indemnities they will, if so requested by the Consortium, be prepared to negotiate these others on behalf of the Consortium for inclusion in the New Agreement.

2. If the New Agreement is made by the Consortium with the Government of Iran and such legislative and executive actions are taken in Iran as will give the New Agreement the force and effect of law, and

if the Settlement is come to between Her Majesty's Government and the Government of Iran and if the releases and indemnities hereinbefore mentioned are obtained then it is the intention that:—

(a)—(i) the Anglo-Iranian will give up all of its rights, titles and interests in Iran in a manner and form satisfactory to it and the other Members of the Consortium,

(ii) each Member of the Consortium (including the Member of the Consortium which represents Anglo-Iranian) will pay to the Anglo-Iranian, and the Anglo-Iranian will accept, the following:—

(A) Payments totalling £540,000 for each 1 per cent. participation of that Member (the initial participation of each Member will be as set out in sub-paragraph 2 (c) below) in the Consortium, to be made as follows and not otherwise, by instalments:—

£180,000 down payment when and if operations in Iran begin under effective management by or on behalf of the Consortium;

£180,000 at the end of the first six months of such operations or when such operations have resulted in a total of 5 million tons of crude and products owned or sold by the Members of the Consortium being exported from Iran, whichever event occurs later; and

£180,000 at the end of the first twelve months of such operations or when such operations have resulted in a total of 10 million tons of crude and products owned or sold by the Members of the Consortium being exported from Iran, whichever event occurs later,

(B) (I) Payments totalling \$8,500,000 for each of 1 per cent. participation of that Member in the Consortium due and payable in sterling at the rate of 10 cents U.S. per barrel (of 42 U.S. gallons at 60°F.) on all crude oil and products owned or sold by that Member when and if exported from Iran, to be made by instalments within 30 days after the end of each quarter in respect of the crude oil and products exported during that quarter,

SECRET

(II) For the purpose of such payments the U.S. Dollars shall be converted into sterling at the average of the daily closing selling rates on the London market for U.S. dollar cable transfers, taken over the quarter in question; but if, and for so long as, there is a fixed official parity in London as between U.S. Dollars and sterling and the aforesaid market rate does not vary from such parity either way by more than 2 cents U.S., then such official rate shall be used in place of the market rate,

(b) If a Member transfers, by assignment or otherwise, the whole or part of its interest in the Consortium, the obligation of that Member to make the payments as set out in sub-paragraphs (A) and (B) above shall, unless otherwise agreed, continue unaltered. For the sole purpose of computing the amounts of these payments crude oil and products owned or sold by any successor of any original Member of the Consortium and exported from Iran shall be computed as if owned or sold by such original Member and exported, without, however, any effect upon such successor's right to have complete and unhampered control of the disposition by sale, exchange or otherwise, of such crude oil or products. If a Member or successor transfers the whole or part of its interest in the Consortium to another Member of the Consortium, the transferor shall, to the extent of the interest transferred, be relieved of its obligation to make the payments as set out in sub-paragraphs (A) and (B) above.

(c) The initial participation of the Members of the Consortium will be as follows:—

	Per cent.
Anglo-Iranian ...	40
Royal Dutch Shell ...	14
California Standard ...	8
Gulf Oil ...	8
Jersey Standard ...	8
Socony Vacuum ...	8
Texas ...	8
C.F.P. ...	6
	100

(d) The Members of the Consortium will not assume any responsibility for, or take any rights, titles or interests in Iran subject to, any obligations or liabilities of or claims against the Anglo-Iranian, of any nature except that the Members of the Consortium

will, as from the effective date of the New Agreement, severally assume responsibility for their share, according to their participation in the New Agreement, of any claims which may be made against the Anglo-Iranian by or on behalf of its former Iranian employees, except any of such claims covered by the indemnities set out in sub-paragraphs 1 (c) (i) (B) and (C) above to be given by the Government of Iran to the Anglo-Iranian. To the extent that the said indemnities affect the responsibility severally assumed as above, they are to be satisfactory to each of the Members of the Consortium as well as to Anglo-Iranian.

(e) In so far as Provident and Pension Funds set up by the Anglo-Iranian are applicable to the former Iranian employees of that company, the Anglo-Iranian, to the extent to which it legally can so do, will procure the Trustees thereof to discharge the liabilities of such Funds in favour of the Iranian beneficiaries thereof in the manner provided for by the Trusts of these Funds; and

(f) For the purpose of this Memorandum oil refined in Iran and supplied as bunkers shall be deemed to have been exported.

.....	Gulf Oil.
.....	Texas.
.....	California Standard.
.....	Jersey Standard.
.....	Socony Vacuum.
.....	C.F.P.
.....	} Royal Dutch Shell.
.....	Anglo-Iranian.

9th April, 1954.

Aide-mémoire

There appear to be some considerations which would make it desirable for the five American Oil Companies which have been participating in the negotiations regarding the Consortium, to reserve the freedom to transfer some part of their total participation (aggregating 40 per cent.) to such American Oil Companies as are mentioned below provided that no objection is taken to them by Her Majesty's Government or the Government of Iran. This freedom should exist for a period of six months from the effective date of an Agreement between the Consortium and the Government of Iran.

Government of Iran, except to a subsidiary or affiliated company.

.....	Gulf Oil.
.....	Texas.
.....	California Standard.
.....	Jersey Standard.
.....	Socony Vacuum.
.....	C.F.P.
.....	} Royal Dutch Shell.
.....	Anglo-Iranian.

9th April, 1954.

Memorandum Exchanged between the Oil Companies dated April 9, 1954

With reference to paragraph 2 (a) (ii) (B) (I) of the Memorandum of Understanding initialled to-day between the Representatives of the following interests—Anglo-Iranian, Gulf Oil, Texas, California Standard, Jersey Standard, Socony Vacuum, C.F.P. and Royal Dutch Shell—it is the intention that if—

- (1) the New Agreement between the Consortium and the Government of Iran permits the latter a royalty in kind as oil; and
- (2) any of such oil is exported (including bunker supplies) other than through the Consortium; and
- (3) the oil so exported is accounted for in the "50-50" arrangement with Iran on a basis that will give the Members of the Consortium at least the same financial benefit within the "50-50" arrangement as though they had themselves exported that oil

then (but only then) each Member of the Consortium will pay Anglo-Iranian the 10 cents U.S. per barrel on that Member's share of that oil in accordance with the above-mentioned paragraph and such payments will be credited to that Member against the amounts of \$8,500,000 referred to in that paragraph. It is understood that for this purpose a Member's share is the same proportion of the Government oil so exported during a quarter as the quantity of crude oil taken by that Member (whether for export as crude oil or for refining in Iran) during that quarter bears to the total quantity of crude oil so taken by all Members during that quarter.

I should be glad if you would confirm your agreement to the foregoing expression of intention.

Within such period of time and if the conditions stated below are met, each of the five American Oil Companies would be free to transfer up to 1 per cent. participation, making a total of up to 5 per cent., to other established American Oil Companies of sufficient responsibility to undertake the financial obligations of their participation or to an American Company formed by such other Companies. There would be required as conditions of any such transfer of participation that

- (i) It would be acquired on the same terms and conditions on which that part of the participation was acquired by the five American Oil Companies; and
- (ii) the transferee would assume, in respect of that part of the participation thus transferred, all of the obligations of Consortium Members, including the obligation to make payments to the Anglo-Iranian; and
- (iii) if there is a default of 30 days in making those payments to the Anglo-Iranian, the participation of the defaulting transferee shall revert to the transferor at the option of the latter; and
- (iv) if there were more than one transferee they would agree to designate one common agent to cast a single vote as to all matters relating to the Consortium, provided, however, that when petroleum or products have been offtaken from Iran all such transferees independently of each other should have the free and unhampered right to dispose of such petroleum or products in their capacity as individual Companies and without any restraint due to the joint representation of the Group in Consortium matters by the designated Member.

Notwithstanding the condition stated in (ii) above, it is not intended that any such transfer would, unless otherwise agreed by the Anglo-Iranian, relieve the transferor from any obligation to make payments to the Anglo-Iranian except to the extent that these payments are made by the transferee.

The Consortium Members intend that there will be no disposal, other than as set out above, of any participation for a period of five years after the effective date of an agreement between the Consortium and the

PERSIA: QUARTERLY REPORT

Period January-March 1954

Sir Roger Stevens to Mr. Eden. (Received April 13)(No. 27. Confidential) *Tehran,*
Sir, *April 9, 1954.*

I have the honour to submit my political report for the first quarter of 1954. Detailed events are chronicled in fortnightly summaries and other reports from this post. I shall therefore try to confine my quarterly reports to general impressions.

Internal Affairs

2. The most striking impression of the past three months is the comparative stability of the Government, in spite of the handicaps, some of them traditional, which they face. They have not gained in popularity; the Shah still dislikes and distrusts his Prime Minister; there have been increasing complaints against the high cost of living; United States aid, on which the country's finances and to a lesser degree its economy depend, is tailing off; and little visible progress has been made towards an oil settlement. Against all this, the Government have three advantages. The Shah appears to be genuinely anxious for an oil settlement and is unlikely to make General Zahedi's position untenable so long as the latter shows signs of reaching one; the security forces remain loyal; and there is at present no effective opposition.

3. On the whole the Government have handled affairs with firmness and some skill in the past three months. The idea of an international oil consortium was well received by the public, which had been prepared for it by the Government. The subsequent visit of a survey party to Abadan and the oil fields was agreed to without hesitation by the Government, and took place without incident. When, in March, press criticism of the British and, by implication, of the Persian Government themselves got out of hand over the issue of compensation for future Anglo-Iranian Oil Company profits, the Government effectively restored calm. The Majlis and Senate elections were virtually completed during the quarter without serious disorder, and both Houses formally assembled just before the Persian New Year (the 21st of March). In some cases, however, the Government seem to have handled the customary rigging of the elections with unnecessary clumsiness.

4. In the security field the Government did well in spite of the vacillations of the Shah. They openly took issue with Kashani, of whom little is being heard at present; they found and arrested Dr. Fatimi; they persevered against the Tudeh Party, which lay low; so, apart from one outburst, did Navab Safavi of the Fidayan-i-Islam (the assassins of General Razmara); the hearing of Dr. Musaddiq's appeal was constantly postponed without attracting much comment, though it seemed likely at the end of the quarter that it would shortly be heard; only Dr. Baq'ai of the Toilers' Party was allowed rope.

Economic

5. Economically and financially, the Government continued to do what they could to bring order into the chaos which they inherited last August. United States aid funds were beginning to run low, but an additional grant of \$6 million carried the Government over their New Year commitments and should tide them over for a month or two more. The economy is hovering uncertainly between the effects of Dr. Musaddiq's improvident policies and the prospects of a large foreign exchange income from oil. But there are sufficient stocks of most basic commodities to prevent any serious developments.

Foreign Affairs—Oil

6. In foreign affairs, negotiations with the Soviet Union on frontier and financial claims dragged on. There were strong rumours in March that prospects of a favourable settlement on the financial claims were good, but Moscow propaganda continued to make it clear that the present Government does not meet with Soviet approval. The Turco-Pakistani agreement led official spokesmen and the press to reiterate Persia's neutrality. No one seriously suggested that Persia should adhere to the agreement though the Shah still dreams of her playing a major strategic rôle in the Middle East. The Government and the press continued to show sensitivity towards British pretensions in Bahrain and Kuwait and took issue with Afghanistan over the River Hirmand project.

SECRET

7. The oil question and Anglo-Persian relations naturally occupied the centre of the stage. There were frequent stories of Anglo-American dissension to which even the Government listened at times. In fairness, however, there is no evidence of the Government's having tried to play one off against the other. In general they adopted a correct and even friendly attitude towards us, and the Shah, after an initial reserve, was also fairly forthcoming. The Government made genuine efforts to educate public opinion on the facts of oil, with some success in that few people seriously maintain any longer in public that Persia can market her oil or produce it, without some foreign assistance. Nevertheless, the press and public opinion reacted strongly to any threat, real or imagined, to "national aspirations." The Government and the Shah repeatedly emphasised that they would never permit an oil agreement which did not take these into account and thus gave fair warning that the question of foreign management is, with compensation, going to be the most delicate problem in the imminent oil negotiations.

8. The Government made no positive proposals for a settlement of the oil dispute (their suggestions for using the International Bank as an intermediary were not pursued though this may be heard of again when negotiations begin) and seemed content to leave it to us and the Americans to take the initiative. By the end of the quarter, however, they, and even more so the public, were beginning to show signs of uneasiness at the continued delay in starting negotiations.

9. The task of reaching an oil agreement will not be made any easier by the inauguration of Parliament, which is expected to

start serious business in mid-April. Few avowed supporters of the National Front succeeded in passing the scrutiny of the electoral commissions, and the credentials of some who did are being questioned. Yet the Government are unlikely to find the Majlis any more pliable than their predecessors. Already there is talk of an opposition group forming. There will be a temptation for every politician to out-do his rivals in defending Persia from foreign exploitation, and the relative liberty of the Majlis proceedings will provide openings for malcontents and extremists outside as well as inside the Chamber. Should the Government lose their grip, the Majlis could turn against them overnight; and then they could expect little support from the Shah.

10. In short, the past three months have shown that the present Persian Government are straightforward, sensible and stable, that is by local standards. They are realists enough to know that any oil agreement reached is bound to be attacked by the extremists, and are prepared to face this risk. Yet their stability has no solid foundation, and they cannot afford to negotiate a really unpopular oil agreement, however much practical commercial considerations might demand it. Whether or not an agreement is reached will therefore depend mainly on the extent to which the oil companies forming the consortium are prepared to reconcile their commercial requirements with Persian determination to control their nationalised oil industry.

11. I am sending copies of this despatch to Her Majesty's Ambassador at Washington and to the British Middle East Office at Fayid and Beirut.

I have, &c.

ROGER STEVENS.

NOTIFICATION TO THE SHAH BY THE SENATE AND MAJLIS
OF THEIR FULL CONSTITUTION*Sir Roger Stevens to Mr. Eden. (Received May 8)*(No. 32. Confidential)
Sir,*Tehran,*
April 27, 1954.

I have the honour to report that the Senate and the Majlis formally notified the Shah last week that they were fully constituted (although the elections have still to be completed) and the Prime Minister, as tradition requires, tendered his resignation. The Shah immediately called upon him to form another Government.

2. The few changes in the new Government are technical. A list of its members is enclosed for convenience of reference. General Farzanegan and Mr. Ja'fari are confirmed in their appointments as Ministers of Propaganda and

SECRET

Education respectively; and General Jahanbani, the acting Minister of the Interior, becomes Minister without portfolio, General Zahedi himself taking over that Ministry. (It is said that General Jahanbani did not relish his task there now that the Majlis are functioning.)

3. Subsequently, the Prime Minister presented his Government's programme to the Majlis and the Senate. A translation of the programme,⁽¹⁾ which consists of generalities, is also enclosed. In his address to the Majlis, the Prime Minister referred to the disorder and the difficulties which he had inherited last August and concluded in the following terms:—

"No reforms can be undertaken until we have surmounted our poverty. We are engaged in oil negotiations which will duly be reported to both Houses. By the will of God and with the guidance of Parliament, we shall solve this momentous problem in the interests of the nation."

4. Some disappointment is being expressed at the lack of Government changes. Criticism of Government corruption (and particularly of General Zahedi himself) has been increasing, and there had been forecasts of a possible re-shuffle. Nevertheless, General Zahedi is probably wise to leave things as they are, at present.

5. No coherent opposition has yet developed in the Majlis. A number of deputies have issued statements on the oil question, all emphasising that any agreement must conform to the Nationalisation Law; and one has delivered an oration in the House criticising Government policy. But the great majority are still occupied in jockeying for position.

6. I am sending copies of this despatch to Her Majesty's Ambassador at Washington and to the British Middle East Office at Fayid and Beirut.

I have, &c.

ROGER STEVENS.

PERSIAN GOVERNMENT

CABINET LIST

(In order of precedence. Figures in brackets give number of years since each Minister first held a portfolio.)

1952 Personality

- No. 198 H.E. General Fazullah Zahedi—Prime Minister and Minister of the Interior.
- No. 82 H.E. Abdullah Entezam—Minister for Foreign Affairs.
- No. 174 H.E. Dr. Janashah Saleh (13)—Minister of Health.
- No. 3 H.E. Ahmad Husain Adl (12)—Minister of Agriculture.
- H.E. Dr. Fakhreddin Shadman (5)—Minister of National Economy.
- No. 10 H.E. Dr. Ali Amini (3)—Minister of Finance.
- No. 67 H.E. Major-General Abdullah Hedayat (3)—Minister of National Defence.
- H.E. Jamal Akhavi (1)—Minister of Justice.
- H.E. Mas'ud Maleki (1)—Minister of Labour.
- H.E. Amir Husain Zafar Ilkhan Bakhtiar (1)—Minister without portfolio.
- No. 59 H.E. Major-General Abbas Garzan—Minister of Roads and Communications.
- H.E. Brig.-General Abbas Farzanegan—Minister of Posts and Telegraphs and Head of Department of Propaganda and Publications.
- H.E. Reza Ja'fari—Minister of Education.
- H.E. Brig.-General Muhammed Husain Jahanbani—Minister without portfolio.

H.E. Musa Sarabandi—Under-Secretary in the Prime Minister's Office.
H.E. Ghulam Reza Fuladvand—Political and Parliamentary Under-Secretary to the Prime Minister.

⁽¹⁾ Not printed.

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P 1013/12G

No. 23

SETTLEMENT OF ANGLO-PERSIAN OIL DISPUTE

(No. 112. Intel)

My Intel No. 59.

Foreign Office,

May 21, 1954.

Discussions between the eight oil Companies concerned were held in London from March 9 until April 9. It was agreed provisionally that:—

- (a) The other Companies acquiring shares in the new enterprise should between them make to the A.I.O.C. payments equivalent to £32 million down and £182 million over a period of 20 years.
- (b) Royal Dutch Shell should take 14 and the Compagnie Française des Pétroles six of the remaining 20 per cent. of the shares in the Consortium (see paragraph 6 of my Intel under reference).
- (c) A.I.O.C. were left free to claim from the Persian Government compensation for loss and damage up to the date of any Agreement reached by the Consortium with the Persian Government.

2. The assumption underlying this agreement was that the Consortium would be able to make a satisfactory settlement with the Persian Government. In such event A.I.O.C.'s claim for loss of future profits under the 1933 concession would be eliminated, because the Company would be retaining a 40 per cent. interest in future operations and be paid by the other Companies for the 60 per cent. interest which they were taking over. Similarly, there would be no claim against the Persian Government for the major physical assets such as the Abadan Refinery, since the Consortium would operate these; but A.I.O.C.'s claim under paragraph 1 (c) above would include the value of facilities for the production and sale of oil on the Persian internal market, which the Persians and not the Consortium are likely to operate in future.

3. Her Majesty's Ambassador and the United States Ambassador at Tehran made identic communications to the Persian Government on April 9, explaining that a Consortium had been provisionally formed and was ready to send a negotiating delegation to Tehran. They suggested that while the delegation, which would include no officials, would negotiate about the future operation of the Persian oil industry, there should be parallel negotiations conducted by Her Majesty's Ambassador on compensation for A.I.O.C. for past losses and damage and on the Payments Agreement between the United Kingdom and Persia which would be necessary if an oil settlement were reached and the Consortium paid Persia in sterling. The Persian Government at once invited the delegation to Tehran, where it arrived on April 11; and the negotiating procedure suggested by Her Majesty's Ambassador and the United States Ambassador was adopted.

4. The subsequent course of affairs has been much as was expected. The Persians began by objecting to almost every feature of the proposals put to them; but after six week's negotiation definite progress has been made on several important questions and the two sides are closer together. The Consortium delegation is now returning to London for consultation with their Principals.

5. The central problem has been whether the Persians could bring themselves to give the Consortium effective control over oil operations in Persia (*i.e.*, extraction and refining, as distinct from marketing). They have now made proposals which, although far from ideal, may perhaps prove acceptable as a basis for further negotiation. They have also agreed in principle to a 50-50 division of profit, although the precise method of securing this result may still require negotiation. They are still bargaining fiercely on certain commercial aspects of a settlement, such as a guaranteed production-rate, but they are unlikely to make these breaking-points, if the major questions are settled. The nationality of the operating companies is also an unresolved issue of importance.

6. The negotiations conducted by Her Majesty's Ambassador on compensation for A.I.O.C. have inevitably made no marked progress. The Persians have tabled vast and imaginative counter-claims, and have suggested a mutual waiver. They are probably reconciled, however, to making some net payment to A.I.O.C., spread over a number of years, although they will no doubt argue for as long as they possibly can.

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7. The negotiations for a Payments Agreement between the United Kingdom and Persia, also conducted by Her Majesty's Ambassador, have made satisfactory progress. The Persians have agreed that the Consortium should make its payments to the Persian Government in sterling, and agreement on the extent to which this sterling may be converted into dollars is in sight. Final details are unlikely to be settled until the main Agreement between the Consortium and the Persians is imminent.

8. The figures in paragraph 1(a) above should be treated as strictly confidential until they are announced by the oil Companies concerned. Paragraph 7 above is similarly for your own information only at this stage. The rest may be used at discretion but, in general, we wish to discourage speculation.

EP 1018/3

No. 24

PERSIA: QUARTERLY REPORT

Period April-June 1954

Sir Roger Stevens to Mr. Eden. (Received July 15)

(No. 53. Confidential) *Tehran,*
Sir, *July 8, 1954.*

I have the honour to submit my political report for the second quarter of 1954.

Internal Affairs

The absence of an oil agreement, growing rumours of corruption, and the high cost of living increased the Government's unpopularity, although the relative calm maintained by the Security Forces is probably appreciated by many more Persians than would be willing to admit it. Opposition elements were not allowed much scope. The Tudeh continued to lie low. Although potentially they remain the most dangerous element in Persia, there was much talk, probably well founded, of despondency and dissension in their ranks, and no evidence to show that their efforts to create a "popular front" were meeting with much success. There was little excitement when the Court of Appeal finally confirmed Musaddiq's sentence of three years' detention. The case is now scheduled to go to the Supreme Court, but there is also talk of parliamentary impeachment. Kashani spent Ramazan in Meshed, and for the most part sulked in his tent. Fatemi spent his time between prison and hospital. Makki got no publicity.

2. Parliament also gave the Government relatively little trouble. Serious opposition was limited and somewhat incoherent; though a small group of extremist Deputies was becoming increasingly vocal by the end of June. Elections were virtually completed during the quarter, except in a few constituencies such as Kerman where Baqa'i was arrested in June; and very soon released after a face-saving statement by the

Prime Minister alleging that the arrest had taken place without his knowledge and consent.

3. The most serious threat to the Government came not from the Opposition, but from the Shah. At a time when they most needed his support he was vacillating and intriguing. He was probably largely responsible for the release of Baqa'i and of Shayegan and other Musaddiq supporters who had been in gaol since last August. He certainly flirted with Opposition elements in the Majlis and toyed with the idea of replacing Zahedi to the extent of putting the idea to the United States Ambassador and myself. But for stiffening from us and other quarters, who represented to the Shah the folly of changing Governments in the middle of the oil negotiations, Zahedi might have fallen.

4. By the end of June, however, the Government had regained some ground. The Shah appeared to be behind them once again. Hopes of an oil settlement were rising, though widespread uneasiness persisted, and Parliament was still behaving reasonably well. Typically, however, a number of extremist speeches in Parliament were attributed to the influence of His Imperial Majesty, who keeps in with the Nationalist Opposition as a form of reinsurance.

5. The Government made mistakes, being unduly heavy-handed in their control of the press, which led to sharp protests towards the end of June; and over-eager, perhaps, to suppress any outward signs of unrest, which were few and far between. Corruption there undoubtedly was, though charges

levelled against members of the Government themselves were probably exaggerated, if not actually devoid of foundation. On the whole, however, they again handled their increasingly difficult task with skill.

Economic

6. The Government reduced the currency circulation and made some attempt, without success, to check inflation. The cost of living, and grumbling about it, continued to rise. The budget presented after the Persian New Year allowed for a large deficit on the principle (as the Minister of Finance admitted) that something must again turn up, either further United States aid or advances against future oil revenues. Although Persia, while her oil revenues remain minimal, must be a permanent debtor with the outside world, her balance of payments position at the end of the Persian year (March) showed paradoxically a credit balance; this was, however, due to injections of United States dollars intended, as an anti-inflationary measure, for the purchase of consumer goods from abroad but which, for a variety of reasons, importers had refused to take up at the time the balance was struck (Persia has since reverted to her normal dependent position). Recently a few large orders for capital equipment (on generous credit terms) were placed, mainly in the United Kingdom (rails, tractors, &c.). There was another small grant of United States aid. The harvest, the most important element in Persian economy, seems to have been good.

7. Suppor of Italy and Idemitsu of Japan showed as much interest as ever in obtaining Persian oil, and there was a considerable number of shipments during the quarter. The Italian and Japanese Governments showed increasing reluctance to make difficulties for these companies. On the other hand, the Persian Government showed a marked reluctance to enter into new commitments with independent would-be purchasers. In fact, they appeared disturbed by the extent of the National Iranian Oil Company's existing commitments, though there is reason to suppose that these may not be binding. This reluctance may have affected the trade talks with Japan, which have been suspended for two months.

Oil and other Foreign Affairs

8. Oil negotiations began in mid-April with the long-awaited arrival of the Consortium negotiators and their team of British, American and Dutch advisers and

a French observer. The negotiations had been resumed by the end of the quarter after a four-week adjournment while the Consortium team consulted their Principals in London. Slow but steady progress has been made in spite of the limitations imposed on Persian flexibility by past history and propaganda. There is no doubt that the Shah and the Zahedi Government are anxious to reach a speedy settlement and there is much optimism in official circles. In June the Government embarked on a useful propaganda campaign to prepare public opinion of which they are rightly nervous. The main points still at issue were (a) the formula under which the Consortium companies will operate in Persia; (b) the duration of the agreement; (c) volume of production and (d) compensation for the Anglo-Iranian Oil Company.

9. Agreement has virtually been reached with the Persians on the parallel issue of sterling payments, but opposition to its terms are at present being encountered in Washington.

10. By the end of June there were reasons for believing that, in return for Persia's abandoning her claim to Firuzeh, the Soviet Government would be prepared to make a number of minor territorial "concessions," offering fairly favourable terms in the financial dispute as an added incentive. The Persian Government seemed to favour a settlement on this basis, but a substantial group in the Parliament was resisting the abandonment of the claim to Firuzeh. It remains to be seen whether the Persians, or the Russians when it comes to the point, will be willing to take the plunge.

11. The Government submitted a revised version of the Bill which had been submitted in 1949 or 1953 to the Majlis laying claim to the Continental Shelf in the Persian Gulf. The visit to Persia of Sheikh Jaber from Kuwait gave rise to reports that Persia proposed to establish direct relations with Kuwait. The Minister for Foreign Affairs assured me that the Government did not at present intend to implement the Continental Shelf Bill (i.e., by drafting regulations defining the extent of the Persian claim), or to establish consular representation in Kuwait; they were, however, anxious to discuss "outstanding problems" in the Gulf with us after an oil settlement. Mr. Entezam implied that Persia might be prepared to abandon her claim to Bahrain in return for a *quid pro quo*, such as our recognition of Persian claims to the islands of Tamb

and the Musa. He also appealed for Her Majesty's Government's support in Persia's frontier differences with Afghanistan and Iraq.

12. Anglo-Persian relations improved during the quarter, although the usual attacks on the Anglo-Iranian Oil Company, and to a lesser degree on British colonialism, persisted. The increased readiness of Persians to be associated with the British once again was illustrated by the large attendance at the Queen's Birthday Party. There was a significant reduction in rumours of Anglo-American disagreement which was

unfortunately accompanied by increased criticism of the United States. The former may have been partly due to our efforts to persuade the Persians that British and American aims are fundamentally the same, and the latter to an increase in Soviet propaganda directed towards Persia.

13. I am sending copies of this despatch to Her Majesty's Ambassadors at Washington and Bagdad and to the Heads of the British Middle East Office at Fayid and Beirut.

I have, &c.

ROGER STEVENS.

EP 1193/17

No. 25

RELATIONS BETWEEN THE SOVIET UNION AND PERSIA IN CONNECTION WITH THE TURCO-PAKISTANI PACT

Sir Roger Stevens to Mr. Eden. (Received July 20)

(No. 56. Confidential)

Tehran,

July 17, 1954.

Sir, I have the honour to report that on the 8th of July the Soviet Ambassador made a *démarche* to the Persian Minister for Foreign Affairs warning Persia against participation in the Turco-Pakistani Pact. Mr. Lavrentiev left an Aide-Mémoire with Mr. Entezam, the text of which was broadcast from the Soviet Union without the Persian Government's having been consulted.

2. As reproduced in the local Press, the Soviet Aide-Mémoire reads as follows:—

"Recently there have been Press reports in Persia and abroad about measures designed to secure Persia's alignment with the aggressive Turkey-Pakistan Pact concluded last April. Such measures are reportedly being taken by the United States and a number of other Governments. It appears that at a meeting between Mr. Henderson, United States Ambassador, and Mr. Zahedi, Prime Minister of Persia, certain military measures were undertaken by the United States Government in the Middle and Near East. The meeting particularly attracted the attention of the Soviet Government which, therefore, drew the attention of the Persian Government to the obligations which they contracted under the security and neutrality agreement concluded between Persia and the Union of Soviet Socialist Republics on the 1st of October, 1927. According to this agreement each of the contracting parties undertakes not to participate in any way in political pacts and alliances against the land and maritime security and against the independence, territorial integrity or sovereignty of the other contracting party.

The Soviet Government wish to receive the necessary explanations from the Persian Government in connection with the subject of this note."

3. This *démarche* follows a recent propaganda attack in *Pravda* on United States activities in Persia, the text of which was widely distributed here by the local Tass representative to Parliamentary and official circles, including the competent department of the Ministry of Foreign Affairs. The substance of the Aide-Mémoire and the manner of its publication have been widely criticised in Parliament and in the Press, where the *Pravda* article had already aroused resentment. In the Senate Mr. Entezam has expressed disapproval of the *démarche*, while reaffirming Persia's neutrality. Press comment denies any foundation for the Soviet protest, criticises the timing and manner of its delivery and accuses the Soviet Union of having broken the 1927 Treaty when Persia was occupied in 1941. The tone of one article in *Kaihan* is reported to have occasioned another critical Soviet broadcast which in turn has led to counter-comment.

SECRET

4. Mr. Entezam told me recently that he was personally offended at the line taken by the Soviet Ambassador. He had given Mr. Lavrentiev explicit assurances that Persia was not intending at the present time to join the Turco-Pakistani Pact nor was any pressure being put upon her in that direction. Nevertheless, the Soviet Government had elected to base their representations on newspaper stories and on hypothetical assumptions regarding what had taken place in conversations between the Prime Minister and the United States Ambassador.

5. Mr. Entezam said he was never very good at fathoming Soviet motives but he thought that the timing of this move was extremely bad. The Persian Government had made great efforts with Parliament to obtain approval for an agreement with the Soviet Union on economic and frontier questions; but in the light of the Soviet *démarche* it was doubtful whether the agreement would now receive approval. (As already reported prospects of an agreement were thought to be good; but I have since heard that some Members of Parliament are urging that any agreement should include revision of Article VI of the 1921 Treaty, which defines the conditions under which the Soviet Union "shall have the right to advance her troops into the Persian interior.") When before the Soviet Ambassador's action, Mr. Entezam had complained to Mr. Lavrentiev about the *Pravda* article, the latter had insinuated that this might be an excuse for evading agreement with the Soviet Union. This had considerably annoyed Mr. Entezam after all the trouble that had been taken to get it through. He wondered now whether the Soviet Government genuinely wanted an agreement at all. Perhaps they had only been using the prospect of it as a stepping-stone to extorting something else from Persia. Rumours had been circulated to the effect that before the agreement was signed the Soviet Government would demand the withdrawal of the United States Military Mission in Persia and the termination of United States military assistance. Rumours were now circulating that the oil agreement would be made conditional upon Persia joining the Turco-Pakistani Pact. This might have been the reason for the timing of the representations. As I knew, there was no truth in the reports but the Russians, who had no doubt inspired them, might find it convenient to believe them.

6. Mr. Entezam said that the draft reply to the Soviet Aide-Mémoire would shortly go to the Council of Ministers. (He has since informed me that it will probably be delivered to Mr. Lavrentiev to-morrow.) I did not ask him specifically about its terms but I gathered that the position of the Persian Government was that the 1927 Treaty was still valid but would not, in their view, prevent Persia from joining a defensive pact if they wanted to. They would regard this as entirely consistent with Article 52 of the United Nations Charter. Their line was that they did not intend to join the pact at present, but they certainly did not propose to slam the door on the possibility of doing so some time in the future. Mr. Entezam then repeated views expressed to me earlier that he personally did not think it would be wise for Persia to join the pact while she was weak militarily and economically and while the Tudeh Party was still active. He also mentioned that there was on the part of the public considerable mistrust of the Turks who still thought by the ignorant to have territorial ambitions in Azabaijan. He implied that it would be necessary to improve Turkish-Persian relations before any question of joining the pact could be considered.

7. I told Mr. Entezam that in the view of Her Majesty's Government any question of timing would be a matter for the Persians. There was certainly no disposition to try to rush them into any hasty action. At the same time, Her Majesty's Government would, I thought, consider it unfortunate if any reply to the Soviet Note slammed the door as regards the future. He assured me that this would not be the case.

8. Mr. Entezam is not alone in speculating about the reasons underlying the Soviet protest. Few Persians take it at its face value. Some claim that it is designed to frustrate an oil settlement, or the Soviet-Persian negotiations, or both; some forecast that the Soviet Government will now press for a renewal of their oil concessions in the north; some hardy anglophobes maintain (with remarkable faith in our powers) that the British provoked the protest in order to undermine United States influence.

9. Whatever the Soviet motive, the immediate effect can hardly be said to have helped the Soviet cause. There has been a wave of support for the Government in which even the opposition in Parliament has joined, and a

SECRET

corresponding decrease in criticism. It would, however, be over-sanguine to hope that these effects will prove more than temporary.

10. I am sending copies of this despatch to Her Majesty's Representatives at Washington, Moscow, Ankara and Baghdad, to the United Kingdom High Commissioner at Karachi, and to the Heads of the British Middle East Office at Fayid and Beirut.

I have, &c.

ROGER STEVENS.

EP 1015/35

No. 26

AN APPRECIATION OF THE TWO HOUSES OF THE PERSIAN PARLIAMENT

Sir Roger Stevens to Mr. Eden. (Received July 27)

(No. 59. Confidential)

Sir,

Tehran,

July 22, 1954.

I have the honour to submit an appreciation of the two Houses of the Persian Parliament, the Majles and the Senate, which recently began their summer recess after about three months of activity. Apart possibly from a few *ad hoc* meetings to clear up one or two outstanding matters, they are not expected to reconvene until the 24th of August.

2. Neither House yet has its full complement of members. There are 129 out of 136 Deputies, and 55 out of 60 Senators, 27 of the 30 elected Senators and 28 of the 30 appointed by the Shah. About half the members of each House are new. Another interesting feature is the relatively large number of Deputies in their twenties or early thirties, some of whom are clearly not yet accustomed to their position. (At the reception I gave for The Queen's Birthday a few of the younger Deputies arrived, obviously overawed, with their invitations in their hands.) Unfortunately, so far as one can see, these younger elements are not representative of the more progressive youth of the country and owe their position largely to nepotism or local family influence.

3. Both Houses are the product of elections in which there was considerable interference. General Jahanbani, the Acting-Minister of the Interior at the time and since killed in a motor-car accident, was generally credited with having gained considerable financial benefit from the proceedings, and the Court was a very active participant. Government and Court interference was not co-ordinated and there was a number of more or less serious conflicts between the Shah and his Prime Minister.

4. Absence of organised political parties in Persia, apart from the proscribed Tudeh Party, combined with the individualism and opportunism of Persian politicians, makes it difficult to define at all satisfactorily the significance of the groups in the Persian Parliament. It is not unknown for a Deputy to be associated at one and the same time with more than one group or "fraction," as they are appropriately called, and the "fractions" rarely have any clearly defined programme or organisation. The lack of reasonably stable political alliance gives an opportunity to any association of members of Parliament, however small, to play a disproportionate role in the proceedings if it maintains a certain degree of cohesion and makes itself heard sufficiently loudly and often. Dr. Musaddiq's National Front in the XVIth Majles was a clear demonstration of this.

5. In the present Majles, a number of "fractions" have already been formed, of Deputies from the same region, of personal friends, and of Deputies generally associated with the Shah or the Government. There is one "fraction" which is more or less in Opposition, although it does not include all the Deputies who do not favour the Government for one reason or another. Originally called "Raushanfekran" (The Enlightened) it is now known as "Iran-e-Nau" (New Iran) and consists of fifteen or so Deputies. They are a strange mixture. Amongst them are Shams Qanat-Abadi, a self-satisfied follower of Kashani's, Jafrudi of

SECRET

Resht reputed to be a Tudeh fellow-traveller, Jahangir Tafazzuli, a newspaper editor of Musaddiq leanings and with close Court connections, Jaza'eri a collaborator of Makki's, and Dr. Amid, Head of the Law Faculty of Tehran University and again close to the Shah. They lack an acknowledged leader or leaders and any clear policy, but it is from them that most of the more demagogic and anti-Government speeches have come. They can be troublesome and could be even more so, but on present evidence I doubt whether they will be as effective as Dr. Musaddiq's National Front group, which was more compact and more determined. Ha'erizadeh, one of Musaddiq's old colleagues who later turned against Musaddiq has so far had very little to say in the Majles, but could perhaps be dangerous if had a suitable opportunity later.

6. The Senate, which was suppressed by Musaddiq, is by nature a more staid body. It contains a number of influential personalities who, although at heart opposed to the Government, are on the whole responsible enough not to attack the Government during the oil negotiations. A case in point is Dr. Eqbal who, as well as having Prime Ministerial ambitions, has a grudge against General Zahedi for preventing his election to the Vice-Presidency. A few other Senators also see themselves as future Prime Ministers, but have not so far allowed their ambitions to get out of hand. Vocal opposition has been left to a very small group including Varasteh, at one time Musaddiq's Minister of Finance, and Divanbaigi, both appointed to the Senate by the Shah, and Lesani; but the atmosphere of the Senate is less favourable to demagoguery than that of the Majles.

7. The general impressions of both Houses as legislative bodies is that they are not much different from their recent predecessors, that they can hardly be expected to take any constructive or imaginative action on their own initiative, and that their members will, generally speaking, content themselves with using their positions to look after their own and their friends' private interests. The Majles has fewer personalities than usual. This could be an advantage, given a firm lead from outside.

8. In this respect, it is generally accepted that the Shah's writ runs larger than the Government's and that in the final analysis his word would be decisive. Unfortunately, His Majesty's cannot content himself with taking a firm and consistent line with the Deputies and Senators, but must also intrigue with, and, I suspect, directly or indirectly encourage, elements who are not merely opposed to the present Government but who are clearly associated with the persons who nearly lost him his throne less than a year ago. It is significant that almost all those Members of Parliament who have criticised and attacked the Government during the recent session are known to be in personal touch with the Shah. In recent weeks and in connection with the oil settlement, His Majesty seems to have counselled rather more moderation on this wing of his acquaintances, but it would be foolish to imagine that this represents any real change of heart.

9. A point of overriding interest is the attitude which the Parliament might be expected to take towards ratification of an oil settlement. When I called on the Presidents of both Houses some time ago, Sardar Fakher and Hakim-ul-Mulk both assured me without hesitation that they did not expect any serious trouble, although no doubt, and especially in the Majles, there would be some noise from the "Opposition." Nothing has happened in the meantime to suggest that they might wish to change this view. In fact the last few weeks, as the oil negotiations have been approaching a decisive stage, there has been a tendency for criticism of the Government to decrease and for persons not too committed to opposition to make a show of benevolence towards the Government. This tendency has been strengthened temporarily by the recent Soviet *démarche* (my despatch No. 56 of the 17th of July). However, in spite of the reassurances of the two Presidents and the other encouraging signs, I doubt whether the passage of the oil agreement will be without incident. Those members of the Majles brought up on Musaddiqism could hardly let an agreement go by without striking a demagogic attitude in an effort to increase their present popularity and, perhaps more important, in order to leave them room for manoeuvre in the future. Unfortunately, any oil agreement, however simply and clearly drafted, is bound to give them an opening. It is too much to expect even educated but uninitiated persons, not to speak of the mass of the people, to understand all the complexities of the problem; moreover among such persons there are many who, as regards oil, are ready to suspect hidden traps. Nor is it enough if a Deputy understands a problem for him to comment on it fairly and responsibly. (Only recently, Dr. Husain Pirnia, who has had

SECRET

considerable experience of financial matters, seemed deliberately to misunderstand and misinterpret the Government's Bill on the fiduciary cover in order to draw attention to himself.) Some of the issues in an oil settlement, such as control of the industry and compensation, have an emotional content irresistible to demagogues and, although on balance I think the chance of ratification is good, we should therefore be prepared for fireworks.

10. The other main point of interest is Parliament's attitude to the Government. An appreciably larger number of members than appears from the size of the "Opposition" is opposed to the Government for one reason or another, such as personal ambition, antipathy towards the Prime Minister or of one or other of his Ministers, or dislike of the military's playing a leading part in politics. Those of them not in the "Opposition," however, seem willing to hold their hand until an oil settlement has been reached and ratified; and even more important is that the Shah now seems to have accepted that the present Government should be allowed to carry the oil agreement through, and to be letting this view be known. Afterwards the Government's real difficulties will start. There are a number of contenders, the Shah will be seriously tempted to vacillate again, and Parliament is bound to become more restless. Although it is outside the scope of this despatch, I might add that although there is much talk of the need for reform, and a few useful elements in the country are genuinely and seriously considering how reforms could be carried out, as far as I can see at the moment any change of Government after ratification of the oil agreement would in all probability mean only a change of faces and quite likely a change for the worse.

11. I am copying this despatch to Her Majesty's Ambassadors at Baghdad and Washington, and to the Head of the British Middle East Office, Fayid.

I have, &c.

ROGER STEVENS.

P 10115/15G

No. 27

SETTLEMENT OF ANGLO-PERSIAN OIL DISPUTE

(No. 36. Guidance. Confidential)
(Immediate)

Foreign Office,
August 3, 1954.

Agreement in principle between the Consortium and the Persians is likely to be announced at 15.00 hours G.M.T. on August 4. There will be the following announcements:—

- (a) A joint statement by the Persian Government and the Consortium negotiators on the details of the agreement, to be released in Tehran.
- (b) A unilateral statement by the Chairman of the Consortium negotiators, Mr. Page, on leaving Tehran.
- (c) If agreement has been reached on compensation, a joint statement by the Persian Government and the A.I.O.C. on negotiations in Tehran.
- (d) Possibly a joint statement by the Persian Government or Her Majesty's Embassy on payments arrangements.
- (e) A statement by Her Majesty's Government to be released by the Foreign Office at the same time as the Consortium statement in Tehran.
- (f) A statement by the Anglo-Iranian Oil Company commenting on the compensation agreement.

2. The texts of (a), (c) and (d) if made, (e) and (f) will be carried in the London Press Service, August 4.

3. In comment, you should be guided by Information Policy Department's letter No. PG13411/6 of July 29. The answers enclosed should only be used if the individual items of the agreement to which they refer have been announced. You may use them also in confidential discussion with members of the Government to which you are accredited. Please make copies of the enclosure to the letter available to your United States, French and Dutch colleagues, and to the senior British representatives of the oil companies in your territory (with the exception of Shell at Damascus and Iraq Petroleum Company, &c., in Qatar).

SECRET

4. You should be guided also by my Intel No. 163 adding as appropriate the following points:—

- (i) we hope that the settlement will contribute to political stability in the Middle East as a whole, and
- (ii) the oil revenues are essential if, as we hope, there is to be a stable and independent Persian Government.

5. Text of statement (f) provides the guidance on compensation promised in Intel No. 163. You should use it to explain how Persian acceptance of a new agreement and payments made by other members of the Consortium have altered the whole basis of A.I.O.C.'s claim.

EP 1115/13

No. 28

REPORT ON A NOTE COVER ACT BROUGHT INTO FORCE ON JULY 21

Sir Roger Stevens to Mr. Eden. (Received September 17)

(No. 71. Restricted)
Sir,

Tehran,
September 8, 1954.

I have the honour to enclose the text of a Note Cover Act which came into force on the 21st of July. The main object of this Act is to give the Bank Melli more latitude in adjusting the volume of currency in circulation according to the country's needs.

2. The Act allows a start to be made in reducing the heavy debts incurred by the Musaddiq Government towards the Bank Melli and will serve to discourage future Governments when in financial difficulties from having recourse to the Bank Melli.

3. Since 1947 Persia has been without any legislation regulating the Note Cover. In that year the Majlis annulled the existing legislation, and for a variety of reasons no alternative law was voted until July of this year. Until 1951 the Note Cover remained on the same basis as prior to 1947, the note issue being covered up to 55 per cent. by gold and up to an additional 22 per cent. by foreign exchange convertible into gold. In 1952 the Musaddiq Government gave itself authority to issue new notes up to 40 per cent. of the amount in circulation in August of that year without increasing the note cover. The whole of this amount (3,120 million rials) was put into circulation before the fall of the Musaddiq Government with a result that the note circulation reached a figure of 10,920 million rials.

4. In contrast, the Government of General Zahedi decided not to issue any further notes without 100 per cent. backing, and when it proved necessary to issue 450 million rials of notes in October 1953, \$14 million of United States aid were deposited as a guarantee with the Bank Melli. Subsequently it proved possible to reduce the volume of notes in circulation by 161 million rials, as a result of which the Government was able to redeem \$6 million.

5. The new Act will have three main effects. In the first place it gives the Government a little badly needed room for manoeuvre. At the time the Act came into force the gold and foreign exchange cover amounted to 43.88 per cent. of the note issue. Under the new act this cover need only amount to 40 per cent. of the note issue, of which 35 per cent. must be in gold and 5 per cent. in foreign exchange convertible into gold.

6. The Government can thus do one of two things. Either reduce the cover by the equivalent of 3.88 per cent. of the total issue without reducing the number of notes in circulation, or alternatively leave the amount of gold and foreign exchange allocated to the note cover unchanged but increase the note issue by approximately one billion rials. Although no announcement has been made I understand that the Government have so far chosen the former course by withdrawing \$7,500,000 of United States emergency aid funds from the note cover. These dollars have been used to meet Persia's pressing need of foreign exchange.

SECRET

7. The second and more important effect of the act is to allow the Government to increase the gold and foreign exchange cover for the note issue up to a maximum of \$30 million above the present level. On the basis of 40 per cent. and taking the dollar at its official value of 32.50 rials, this means that the Government could increase the note issue by up to 2,400,000 rials or approximately a quarter of the present issue.

8. Finally, some provision has been made in the act for the reduction of the Government's indebtedness to the Bank Melli, which amounted to over twelve billion rials at the end of March of this year. Under the act the National Iranian Oil Company are to amortise their debt to the Bank Melli over a period of six years beginning one year after the entry into force of the act. From the same date the Government are also to hand back to the Bank Melli their share of the bank's profits until such time as the Government's debt to the bank has been extinguished. I understand that the Government's share of the bank profits amounts to some 200 million rials a year. The bank is enjoined not to grant any loans in future, either to the Government or to semi-official organisations, except for productive purposes.

9. I am sending a copy of this despatch to the Commercial Relations and Exports Department, Board of Trade, Her Majesty's Treasury, and the Exports Credits Guarantee Department.

I have, &c.

R. S. STEVENS.

Enclosure

NOTE RESERVE ACT, 1954

(Commencement : July 21, 1954)

Section 1

The Bank Melli note reserve control board shall ensure that the following reserve shall exist in connection with notes printed until the commencement of this Act or which will be printed later.

(a) A minimum of 40 per cent. in gold and gold convertible or gold guaranteed currencies, provided the gold proportion shall never be less than 35 per cent. of the total reserve.

(b) The maximum proportion in gold and gold convertible or guaranteed currencies above 40 per cent. which may be added to the reserve shall not exceed dollars U.S.30 millions calculated at the official rate of 32.25 rials per dollar.

(c) The remainder of the note reserve to 100 per cent. shall comprise Government stock. The jewels enumerated in the Act of Aban 25, 1316, shall represent the guarantee of the pledged Government stock. They shall be placed under the authority of the note reserve control board.

Note 1.—Gold pledged as note reserve on the day of the commencement of this Act may not be withdrawn from the control of the note reserve control board. It shall be used exclusively as note reserve, as provided under (a) above.

Note 2.—The value of the gold of the note reserve shall be calculated on the basis of 1 gramme gold = 36.290,133,35 rials; foreign currencies shall be valued in accordance with International Monetary Fund rates and on the basis of 1 dollar = 32.25 rials.

Note 3.—Iran's share in the International Monetary Fund and the International Bank for Reconstruction and Development (as provided in the Acts of Dey 6, 1324, and Farvadine 26, 1327) shall be made part of the note reserve as provided under (a) above.

Note 4.—The amount of Government stock which shall be made a part of the note reserve shall be subtracted from the debts falling due by the Government to the Bank Melli banking department.

Section 2

The application of 1 (b) of this Act shall be the object of a proposal of the Bank Melli to be approved by a joint committee composed of the Bank Melli higher council and note reserve committee members.

Note.—Joint committee meetings shall be called to order when no less than five members of the bank higher council and five members of the note reserve

control board are present. Resolutions shall be voted by no less than seven members among the ten members present, and if the latter's number is greater, by not less than two-thirds of the members present.

Section 3

A decision to withdraw notes from circulation or to replace these notes by like notes or by other classes of notes may be taken only on a proposal by the Bank Melli approved by the joint committee provided under Section 2 above. The decision shall be submitted for Cabinet approval.

Replacement of notes shall be done within a period which shall be the object of a public notice. At the expiration of this period, the notes withdrawn shall be demonetised. The withdrawal period shall never be less than one year.

Note.—The difference between notes printed and notes withdrawn from circulation shall be paid to the Government. As long as any Government indebtedness to the bank exists, their amount shall be borne on Bank Melli banking department accounts.

Section 4

The Minister of Finance shall represent the Government in the note reserve control board. Two representatives from the Lower House of Parliament, elected as provided under Section 29 (note) of the Bank Melli Statutes Act, shall be members of the board. They shall serve until their successors have been elected.

Note.—The Government Inspector to the Bank Melli shall not, under any pretext, serve in any capacity in Government departments or in organisations sponsored by the Government.

Section 5

Notes ordered abroad by the Bank Melli shall be exempted from Customs duties.

Section 6

The Government shall:—

(a) From the beginning of the year 1334 (March 21, 1955) and within a period of six years, refund all loans made directly or indirectly through the Bank Melli by the National Iranian Oil Company. These refunds shall be made in six equal annuities from the company's revenue.

(b) From the beginning of the year 1334 pay its share of Bank Melli profits to the bank banking department as long as it will be indebted to it. These refunds shall be deducted from the Government indebtedness to the bank.

Section 7

Loans which may be granted in the future by the Bank Melli banking department under the legislation in force to the Government, the Seven-Year Plan office, city corporations and companies and organisations founded with public funds shall be earmarked exclusively for economic development and the increase of national production.

Banks established or to be established with public funds shall be excepted from this rule provided they earmark the loans granted to them to loans to the Government, city corporations or for non-productive purposes. These loans may be thus granted to companies and organisations established with public funds. The Minister of Finance shall ensure that loans enumerated in this section shall be exclusively earmarked to the country's economic development and national production.

Note 1.—Whereas the capital of the Mortgage Bank has been subscribed to a 50 per cent. proportion by the Minister of Finance and 50 per cent. by the Bank Melli, has been only 33 per cent. paid up, the Bank Melli shall, with a view to extend Mortgage Bank operations, pay to it 150 million rials within three months from the commencement of this Act.

The Bank Melli shall pay its share by earmarking the difference arising from the alteration provided by the present Act in the proportion between the note reserve and the note circulation.

The amount thus placed at the Mortgage Bank's disposal shall be used 75 per cent. in the provinces and 25 per cent. in Tehran.

Note 2.—From the funds originating from the difference in the proportion between the note reserve and the note circulation, 50 million rials shall be paid to the pawnbroking bank's capital.

Note 3.—The Bank Melli Iran shall, from the day of the commencement of this Act and within a period of six months, by collecting a 3 per cent. commission, to pay 50 million rials to the Agricultural Bank. This sum shall be earmarked by this bank for the grant of loans in the provinces.

Note 4.—Any infraction to the provisions of this section shall be deemed an illegal intervention into public property and be prosecuted under the legislation in force.

Note 5.—Warehousing fees and commissions collected by the pawnbroking bank on movable property committed to its care shall not exceed one per cent. for a loan not exceeding 10,000 rials and 4 per cent. for loans exceeding this amount.

Section 8

Commission rates collected on all Government debts, including interest rates and transfer and other charges shall be determined by agreement between the Minister of Finance and the Bank Melli.

Section 9

Any Act or section of an Act contrary to these provisions shall be deemed to have expired.

Section 10

Regulations for the application of this Act shall be drafted by the Bank Melli and approved by the joint committee under the provisions of Section 2 above. They shall come into force after their approval by order.

EP 1017/3/G

No. 29

COMMUNIST CONSPIRACY IN THE PERSIAN ARMED FORCES AND POLICE

Sir Roger Stevens to Mr. Eden. (Received September 17)

(No. 72. Secret)

Tehran,

September 15, 1954.

Sir,

In my last fortnightly political summary (my telegram No. 60 Saving of the 8th of September) I reported the discovery of a Communist organisation operating in the Persian Defence and Security Forces. I now have the honour to submit a fuller report, which is based partly on information from secret sources.

2. Investigations are still proceeding, but it is already very clear that the organisation was extensive and dangerous. The facts seem to be as follows.

3. Sabotage in the Persian Air Force and Navy last autumn was followed by an unusually thorough enquiry into the loyalty of members of the Forces, namely the Army, Air Force, Navy, Gendarmerie and Police. One person on whom suspicion fell was a certain Abul-Hasan Abbasi, a former Army Captain who had been dismissed the service for insubordination. Abbasi, learning that he was under suspicion, attempted to leave Tehran but was followed and arrested at the railway station. He was carrying incriminating documents. Many of these, and other documents found soon afterwards, including lists of the organisation's members, were in a geometrical code which proved difficult to break. This has prolonged the task of rounding up suspects.

4. When a substantial number of arrests had been made and rumours had begun to circulate, the Government issued an unrevealing statement which played down the size of the conspiracy. Shortly afterwards, however, Press reports appeared which were near the truth. The Government, anxious not to alarm the suspects still at large, and sensitive as to the effect of these revelations on public confidence, temporarily suppressed or threatened to suppress a number of

SECRET

newspapers, including some of their firmest supporters. However, growing public uneasiness soon obliged them to abandon their attempts at reticence and they have now issued a communiqué, a translation of which is enclosed, admitting the seriousness of the conspiracy. In addition they have clearly been supplying the Press with detailed information.

5. The organisation is reported to have been headed by a three-man committee consisting of Khusrau Ruzbeh, a former Army Captain and well-known Communist who had been imprisoned for subversive activities and escaped (more than once, for the last time in 1950); a Colonel Siamak of the Gendarmerie; and a Colonel Mubashsheri of the Judge Advocate General's Department. These three also formed part of a seven-man executive committee, the other members being the Abbasi mentioned above, two Air Force lieutenants and a Staff College major.

6. It is announced today that so far 434 officers and students have been arrested. About 250 more are known to be under surveillance and some 1,000 N.C.O.s to be connected with the organisation. The names of over 100 of the officers arrested have been released to the Press. They illustrate all too clearly the extent of penetration. It appears that many of the officers involved joined the Tudeh Party during the Musaddiq régime and that many of them owed their advancement to it. The Army, Gendarmerie, Police and Air Force all figure and among officers whose posts are given are to be found representatives of the Judge Advocate General's Department, the Military Academy, the Staff College, the Military Police, provincial garrisons and the Prime Minister's Guard. The offices of the General Staff, Military Governor of Tehran and Chief of Police are known to have been affected also. Even the Military Intelligence Bureau was seriously penetrated both in Tehran and in the provinces. The Government have denied reports that officers of the Shah's guard were implicated, but it is known that two of them have been arrested. A cousin of the late Shah is also in custody. One or two officers have committed suicide.

7. There has been considerable speculation about the aims of the organisation and their relations with the Tudeh Party and the Soviet Embassy. It is believed by some in authority that the organisation were planning to create extensive disturbances to prevent ratification of the oil agreement. The arrest of a number of employees of the National Iranian Oil Company at Abadan, including some in key refinery posts, and of officers there lends some colour to this. There have also been unconfirmed reports in the Press that the organisation intended to attempt a *coup d'état* in a few weeks' time. But there is no evidence that they felt strong enough to attempt this and it seems unlikely that they would have risked their position by overt action at this stage. The general impression is that they were concentrating on intelligence work and on building up their strength.

8. There is conflicting information about the source of their instructions and finances. According to some reports they were receiving a regular subsidy from or through the Tudeh Party and Dr. Ghulam Husain Jaudat, well known for his Communist associations, is generally mentioned as their link with the Party's Central Committee. However, they seem to have been careful not to associate themselves with ordinary Tudeh party activities and the Minister for Foreign Affairs told me a few days ago that they were controlled directly by the Soviet Embassy and not through the Tudeh Party. He said that this point was not being emphasised (though there have been passing references to it in the Press) in order to avoid trouble with the Russians. In fact the Persian Government appear to be deliberately emphasising that the plotters were closely connected with the Tudeh Party in order further to discredit the Tudeh.

9. The Russians here in Tehran seem thoroughly embarrassed. In reply to a question of mine Mr. Entezam said that the Soviet Military Attaché (Colonel Rodionov) was already being transferred to Ankara and that the Persian Government were not at the moment contemplating asking for the removal of any member of the Soviet Embassy. I gather that in fact no information has been uncovered so far which discloses what members of the Soviet Embassy or satellite Legations may have been implicated and for this reason no diplomatic expulsions are at present contemplated.

10. Mr. Entezam also told me that the Persian Government were reasonably confident of having effectively suppressed the Communist organisation in the Security Forces though certain ringleaders, meaning Persians, Armenians or

SECRET

Caucasians, not Russians, were still at large. He admitted, however, that there was probably much to be done on the civil side.

11. This last point has been the subject of considerable public discussion in the last few days. The Ministries of Justice and Education in particular have been criticised for being heavily penetrated. Paradoxically, the Government's success in uncovering the military conspiracy has not immediately strengthened their position. It has led people once again to fear the strength of the Tudeh Party and has increased a sense of public uneasiness which was already becoming apparent before these events. For example, fears are being expressed that one or more of the known Parliamentary supporters of the oil agreement may be assassinated. Furthermore, the Government's attempts at censorship (paragraph 4 above) have accentuated criticism of their treatment of the Press. With regard to the Press it is also worth recording that there is a general demand that the conspirators should receive the maximum penalties, including death. It is pointed out that in the past there has been far too lenient treatment of traitors.

12. Mr. Entezam drew my attention particularly to a revealing and disturbing feature of these events, namely that amongst those arrested were a large proportion of efficient and honest officers. He said that money no doubt had played a part in attracting some of those involved, particularly in the ranks, but for the most part the officers were idealists who perhaps believed that the best hope for social justice in Persia lay in Communism. I have heard from elsewhere that sixty of those arrested were medical doctors and that the University of Tehran is regarded as the original source of indoctrination of many of the organisation's members. I have also been informed that nearly one third of the instructors at the Cadet School were involved. This underlines the extent to which the Communists are working upon the legitimate dissatisfaction of the educated youth of Persia with the inefficiency, selfishness and corruption of the greater part of the governing classes of the country.

13. When I discussed the arrests with the Permanent Under-Secretary at the Ministry of Foreign Affairs he emphasised the fact (which Mr. Entezam had previously mentioned to me in passing) that the Persian Government wished to work very closely with Iraq in the security field. Mr. Sami'i said that they were hoping that the Iraqi Minister of the Interior would visit Tehran shortly for this purpose. They believed that the Russians had been making considerable efforts to penetrate the Iraqi Forces and that they were operating to some extent through Persia. Mr. Sami'i added that, later on, the Persians might also propose some form of security liaison with the Turks. I welcomed these developments adding that I thought Persia and Turkey could usefully work much more closely together, and that I was not thinking simply of defence or of the Turco-Pakistani Pact, on which I well understood Persia's position.

14. To sum up the evidence at present available and the information given to me it is clear that:—

- (i) The Persian Government have uncovered a large-scale Communist conspiracy centred in the Army, Gendarmerie and Police.
- (ii) The scale of penetration of the Army and Police and the calibre of the conspirators indicates that their organisation might have been able to carry out a political *coup* as well as purvey information to the Union of Soviet Socialist Republics.
- (iii) The conspirators were in touch with the Russian Embassy in Tehran.
- (iv) For their own political purposes, the Persian Government are making it appear that the conspiracy was closely connected with the Tudeh Party, in order to discredit it.

15. I am sending copies of this despatch, with enclosure, to Her Majesty's Representatives at Ankara, Baghdad, Moscow, Washington and the British Middle East Office at Fayid and Beirut.

I have, &c.

ROGER STEVENS.

Enclosure

Extract from TEHRAN PRESS REVIEW, No. 720, dated Monday, September 13, 1954.

"It had been felt for some time that agents of the Tudeh Party had infiltrated the security forces and were engaged in obtaining information, neutralising the measures taken by the security forces and spreading discontent among the ranks

SECRET

of the Army, Gendarmerie and Police. These secret activities increased as time went on and their espionage ring was covering an ever-widening field. The publication of certain secret information concerning the security organisations in Tudeh papers left no room for doubt that Tudeh agents had succeeded in deceiving a number of weak-willed officers and in turning them into their tools to carry out their treacherous work by making these officers spy for them in the Army, Police and Gendarmerie.

In order to effect a thorough purge in the security organisations of base and treacherous elements, special agents were put on the job and eventually succeeded in discovering the secret Tudeh organisation and to arrest several treacherous officers who had placed themselves at the disposal of traitors for whom they spied. Valuable and revealing documents were discovered in the houses of the arrested officers that threw light on the secret connections between the Tudeh Party and some individuals leading to the arrest of other officers attached to the military ring of the Tudeh Party. Thus all the officers belonging to the military organisation of the Tudeh Party who were spying in the Army, Police and Gendarmerie under the direction and in the interest of that Party have been recognised and arrested.

The great majority of the arrested officers have confessed their guilt in the face of irrefutable documents and some of them are repentant and are asking for pardon. The Military Governor of Tehran can now inform the public that with the arrest of these dastardly officers engaged in espionage in the interest of others and to the prejudice of their country, the Tudeh influence in the security organisations has been eradicated and the base agents of that Party have been swept out of the Army organisations.

It is regrettable that such an unpleasant news about the treason of some vile officers should be given to the public by the Military Governor's Office but it is a matter of rejoicing that the security organisations have been purged of these treacherous elements through the recognition and arrest of these men whose trial will shortly begin and who will be punished for their treason according to the law."

EP 1051/33

No. 30

ANGLO-PERSIAN RELATIONS

Sir Roger Stevens to Mr. Eden. (Received September 24)

(No. 62 Saving. Secret)
(Telegraphic)

Tehran,

September 22, 1954.

I had an audience with the Shah on September 21. We talked for an hour and a half.

2. His Imperial Majesty opened by saying that the hand of Providence had again been at work and had saved him and his country. It had been at work during the events of August 1953 and he could find no other explanation for the miracle which had exposed the Communist plot in the Persian army and perhaps averted a catastrophe. He said he was quite certain, in his own mind, that the plotters intended violence during the passage of the oil agreement through the Majlis and that he himself and several of his Ministers were intended for destruction. (M. Ala, the Minister of Court, had told me the same thing on my way in to the audience. He said that the Government was doubling its precautions when the Shah moved about and was pressing His Majesty quickly to name a successor. In M. Ala's view he would have to be the next brother, Prince Ali Reza.) His Majesty admitted that there was no definite evidence to support his theory, but he believed that the plotters intended to create chaos in the next few weeks which at worst from their point of view would prevent ratification of the oil agreement, and at best might have produced a complete breakdown of the Government in Persia. He quoted the fact that until quite recently the Russian and satellite representatives here, in conversation with other diplomats, had expressed scepticism and indifference regarding the outcome of the oil settlement, thus implying a confidence in their powers to wreck it, whereas recently they had shown a renewed curiosity and anxiety. I congratulated His Imperial Majesty on the happy outcome of the

SECRET

affair and said I hoped he was confident that the evil had now been rooted out, at least in the army. He said he believed this was the case though there were still a number of intelligence cells on which the military authorities were working. He also admitted that there was considerable Communist penetration in the civil service, but he thought this was less dangerous and would take time and a positive policy of social and economic reform to eradicate.

3. The Shah then went on to say that he hoped that now that the Persian army had been strengthened by purge Her Majesty's Government would be able to take its potentialities more seriously. He had sometimes felt in the past that we were apt to underrate its capabilities. He suggested enquiringly that perhaps we had known something of the extent to which it had been penetrated by Communism and had therefore been inclined to take a reserved view of its usefulness. I replied that had we had any definite information we should certainly have passed it on. I thought that, owing to the break in diplomatic relations and the absence, until very recently, of a British Military Attaché in Tehran, we were in fact considerably out of date. I hoped that the recent appointment of a military attaché would strengthen our relations in this field in a friendly way and would be of mutual advantage to both our Governments. I asked the Shah whether he thought the purge of officers had seriously weakened the army. He replied that the numbers involved were not so large and there were others to step into their place. He very much hoped that the whole incident would be recognised by the Western forces for what it was, namely, a strengthening of the Persian armed forces and that greater confidence could be placed in them and the role which they might play in Middle Eastern defence in the future.

4. The Shah then asked me, as I had been warned he would do, about developments in neighbouring Arab countries. He was particularly interested in knowing what I thought about the policy of the Nouri Said Government in Iraq and Iraq's relations with Egypt. Bearing in mind Sir John Sterndale Bennett's despatch No. 30 of August 30, I said that we were still at the stage of observing and analysing the effects on Arab policy of the Anglo-Egyptian agreement and subsequent developments. It was too early yet to judge the outcome, but I did not think that Iraq would go fully along with any proposals for strengthening Arab cohesion which involved complete Egyptian hegemony. His Imperial Majesty remarked rather characteristically that Nouri Said was known as a friend of ours and surely we knew what his policy was. I replied that as he had very recently visited London we might now know a little more than we did, but I had not yet been informed of any details of his visit.

5. The Shah then said that the policy on which he was working for Persia was to draw together with her neighbours, Turkey, Iraq, Pakistan and, if possible, Afghanistan. He considered it was much too early to talk of adherence to the Turkey-Pakistan Pact. This would have to wait until Persia was stronger economically and militarily—he thought for at least a year and a half. But this should be kept in view as an ultimate objective. He asked whether I agreed with all this. I said that I did and that to the best of my belief Her Majesty's Government did likewise. It was obviously logical and in accordance with the dictates of geography that Persia should draw together with her neighbours, eliminating cases of friction and trying to lay the ground work of a future common policy. We certainly had no desire to press Persia to join the Turkey-Pakistan Pact and we thought that any decision on timing must be hers. As a neighbour I thought Afghanistan might prove difficult; we certainly found her so. The Shah agreed and said that he thought that, at the moment, relations with Pakistan were particularly close and happy.

6. The Shah expressed confidence on the oil question, and I took the opportunity of saying that I considered His Imperial Majesty's very positive and clear-cut intervention had proved the turning point in the oil negotiations. He said that he had been criticised by some of his friends who were not opposed to the oil agreement for having come down so firmly behind it, for exceeding his constitutional position and for associating the monarchy with a settlement which might be the subject of criticism or controversy later on. He himself, however, was convinced not only that he had done rightly but that the agreement was better than that obtained by any other oil-producing country (even Venezuela which, after all, had a concession which Persia did not) and he had no reason to regret the stand he had taken. This conversation ran on for some while, with me stressing that

I hoped and believed that the oil agreement would stand the test of time and still be seen as something which had brought inestimable benefit to Persia thirty years hence, and with the Shah dwelling more particularly on the short-term view which crudely expressed (though this is not how he put it) might be summarised by saying that he knew a good thing when he saw one and he was not going to let the Government get away with all the credit.

7. The Shah then dropped a hint that he wanted to talk about his visit to Europe and the United States. (It seems to be an unwritten convention in these conversations that new subjects are, formally at least, invariably introduced by the other party rather than His Imperial Majesty.) I explained that I was not yet in a position to give him a reply to his earlier enquiries and asked what his present intentions were. He said that once the oil agreement was ratified ("and that would take twenty days") he would have to plan internal reforms and ensure the security of the country and the stability of the Government. After that he would like to go abroad. He thought he might be able to do so in forty-five days, whether from now or from the date of ratification was not quite clear. He would prefer to visit England before going to America but, if thought preferable, could arrange to stay in England on his way back. He said that the object of his visit was twofold, personal and official. On the personal side, the Queen was very anxious to see the United States which she had never visited and he did not want her to make the journey alone. He, himself, was in need of a rest and also of dental treatment. For these reasons he did not want to delay his journey too long. On the official side, the object of his visit would be to help him chart out Persia's future foreign policy. He did not expect decisions would be taken—these were going to be made in Tehran—but he wanted a full exchange of views and exploration of problems. He was particularly anxious to know whether the sketch of Persia's foreign policy which had given me (paragraph 5 above) met with the approval of Her Majesty's Government. If it did, he would go to the Americans and tell them so; this would be one of the advantages of visiting England first. I remarked that I was confident that in advance of his visit there would be Anglo-American consultation and that he would therefore get an agreed view which, I was sure from what he had told me in the past, was what he wanted. I said from this point of view and in the light of the general situation, his visit might be more fruitful if it did not take place too soon.

8. His Imperial Majesty then reiterated that he thought he could get away in forty-five days. If, however, I thought that the internal security position was such that he ought not to leave so soon I had only to tell him so. This posed rather an awkward question. Had I answered yes, which is in all probability the truth, he would, I know, have at once jumped to the conclusion that we had first-hand information unknown to him about some further plot that was brewing and many misunderstandings might have arisen. On the other hand, I knew from recent conversations with M. Ala and M. Entezam that the Government were doing all they could to dissuade the Shah from an early journey; M. Entezam, in particular, had told me that he was very worried about the whole business and particularly about the prospects of the Shah making foreign policy over M. Entezam's head. I therefore said that I could in any event only speak for myself, since I was awaiting the comments of my Government, but that I thought the amount of work which would have to be done, and the problems which would arise, after ratification of the oil agreement could not yet be clearly foreseen and that it might be too early to reach definite conclusions. The Shah appeared to agree that the question would have to be looked at again immediately after ratification. I also said that I thought it would be useful if at the time of His Imperial Majesty's visit abroad the outlines of a plan for dealing with the oil revenues and for Persia's economic rehabilitation were in existence. The Shah enquired laughingly whether that meant we were prepared to give Persia some economic help over and above their oil revenues. I answered in the same line that this was not the thought in my mind but that some information as to how Persia was proposing to put her house in order following upon an oil settlement would clearly be of constructive use and help to create confidence. The Shah accepted this but said he thought the preparation of a plan would take some time, probably six months, which is indeed the period which M. Ebtehaj, the new director of the Plan Organisation, has mentioned to me. We left it that when I had any information about the practical side of His Imperial Majesty's visit to London I would get into touch with him again.

PERSIA: QUARTERLY REPORT

Period July-September 1954

Sir Roger Stevens to Mr. Eden. (Received October 15)

(No. 81. Confidential) *Tehran,*
 Sir, *October 12, 1954.*
 I have the honour to submit my political report for the third quarter of 1954.

Internal Affairs

Though the oil agreement was signed and a serious Communist conspiracy uncovered the Government's position at the end of the quarter was, if anything, weaker than before. Even though prospects of early ratification of the agreement were good, it would be some time before the agreement showed substantial benefits. Meanwhile, with foreign aid running out, the country found itself in serious foreign exchange difficulties in September. Widespread dissatisfaction with the Government's performance, particularly criticism of the cost of living and accusations of corruption, persisted. Many politicians, some of them having political ambitions which do not stop short of the premiership, were hoping that the Shah would dismiss General Zahedi after ratification and opposition to him gained ground in various quarters in preparation for filling the posts which would become vacant if his Government were dismissed. However, apart from the extremists, those who opposed the Government generally approved the oil agreement.

2. The Shah came out firmly in favour of the agreement, which made easier the Government's task of presenting it to the Parliament and to the country as a whole. Both Houses were in recess for much of the quarter, though the Majles found time to pass a Bill (now also approved by the Senate) revoking Musaddiq's decree laws except those which the Government wish to retain.

3. The extremists proved ineffective and there were no serious disturbances. Musaddiq's lieutenants, Shayegan and Razavi, were rearrested and put on trial with Fatemi. Musaddiq himself continued to serve out his sentence pending his final appeal. Once again little was heard of Kashani or the Fedayan-e-Islam. Baqa'i was barred from returning to Kerman, but the Government still fought shy of holding elections there. The Communists suffered

a major reverse in that a part, at least, of their organisation in the armed forces, gendarmerie, police and the National Iranian Oil Company (N.I.O.C.) was exposed and some 500 or more persons arrested; this discovery, however, provided disquieting evidence of their basic strength and of the extent of their ramifications.

4. The conspiracy was uncovered in September. In the armed forces alone between 400 and 500 arrests were made, mostly of officers up to the rank of colonel. A number of National Iranian Oil Company officials at Abadan were also arrested. It is clear that the services as well as the police and the gendarmerie, including key organisations such as the Military Intelligence Bureau, had been heavily penetrated throughout the country. It is particularly disquieting that a number of the arrested officers are men with a reputation for relative honesty and efficiency. One of the aims of the ringleaders was the eventual establishment of a "democratic republic," possibly with Musaddiq as a figure-head initially, but it is not known whether they felt strong enough to attempt to seize power in the near future. It is generally thought that they would have exerted all their forces to prevent acceptance of the oil agreement. They were in direct touch with the Soviet Embassy, though the Persian Government have deliberately not advertised this fact.

5. The Tudeh Party suffered a further blow at the end of September when one of their main printing presses and propaganda distribution centres was seized, though this did not stop them getting their newspaper *Mardum* out on the streets again three days later.

6. The Government's success in the security field has done little, if anything, to strengthen their position in the country. The extent of the conspiracy revived public fears of Tudeh strength; there was a clamour for the severest punishment of traitors, for a thorough purge of the civil administration, notably in the fields of education and justice where Communist penetration is undoubtedly heavy, and implied criticism of the Government for having let things drift in the past.

SECRET

7. The Shah, with the thought of assassination ever in his mind, was also disturbed, even though a tour of Azarbaijan which he undertook in July had given him reassuring proof of the popularity of the monarchy. The conspirators included two members of his personal guard (though this has been denied) and they were in possession of plans of his summer palace.

8. Whether the Shah would change his Government after ratification of the oil agreement was still a matter for conjecture at the end of the quarter. It had become common knowledge that he wished to pay an early visit to Europe and the United States and might want to reorganise the Government before leaving. On the other hand his relations with the Government remained generally good. Zahedi's largely mediocre rivals lived in hope, and their preparations for more active opposition increased, but there were still some influential and less partisan Persians who felt, rightly in my view, that the Government had a number of important achievements to their credit and should be given a chance to show whether they were capable of carrying out the needed reforms after ratification of the oil agreement.

Oil and other Foreign Affairs

9. Agreement in principle in the negotiations between the Consortium and the Persians on the future operation of the oil industry and in the parallel Anglo-Persian negotiations on compensation for the Anglo-Iranian Oil Company and payments arrangements for the oil revenues, was reached on August 5. Signature of the English text of the full agreement was completed on September 21 and the Government presented the agreement to the Majles on that day and to the Senate on the next. Dr. Amini's long and histrionic speech to the Majles was well received, and only Qanatabadi openly attempted serious criticism of the agreement.

10. In the hope of preventing Parliament from suggesting amendments to the actual agreement and avoiding long public debate, the Government presented the agreement under cover of a single article Bill (which theoretically precludes amendment, leaving Parliament with the simple choice of approval or rejection) and asked each House to select 18 of its members to form a special committee to examine and report back on the agreement. The great majority of those elected to the committee favoured the agreement, thus reflecting opinion in

both Houses as a whole, and the committee made good progress. The 18-man parliamentary commission however, seized on the fact that the Consortium has given none but the vaguest guarantees about the rate of production of Persian oil after the first three years of the life of the agreement; this aspect was the one which, at the end of the quarter, appeared likely to give trouble in Parliament.

11. While few Persians pretended to understand the details of the agreement, and the extremists opposed it in principle, insinuating that the Persian negotiators had been tricked, the prevailing feeling was one of relief that negotiations had been concluded. Up to the end of the quarter reaction to the payment by Persia of £25,000,000 under the compensation agreement had been surprisingly moderate. At the same time there was a strong feeling (which the Government fortunately sensed although somewhat belatedly) that Parliament must not be rushed or coerced into approving the agreement.

12. Persia's general relations with the Soviet Union deteriorated markedly. A strong Soviet propaganda campaign against the oil agreement and a sharp note in July reminding Persia of her undertaking to avoid entering into "aggressive agreements" under the 1927 Treaty, and the uncovering of the military conspiracy all contributed to this. The Soviet Embassy in Tehran gave the impression of being ruffled. Nevertheless, the Persian-Soviet talks on frontier and financial questions continued in a fashion and reports appeared at the end of the period that there were reasonable prospects of formal settlement. The Persian Government behaved correctly but firmly, and in their reply to the Soviet note they categorically affirmed their right under the United Nations Charter to adhere to defence pacts, though the Minister for Foreign Affairs told me that in practice they had no intention of so doing at present.

13. There was, however, much speculation about regional defence. The Shah raised the question with me on more than one occasion making it clear that his immediate preoccupation was the provision of increased military aid without commitments. There was considerable resentment at the refusal of the Egyptian Government to regard an attack on Persia as requiring automatic reactivation of the Canal Zone Base under the proposed Anglo-Egyptian Agreement and representations were made to the Egyptians by the Persian Government.

SECRET

14. For the rest, Persia's foreign relations were uneventful. Anglo-Persian relations continue to make steady progress, though we are still regarded with much underlying suspicion and reserve. In August I was obliged to return a note which, in the context of flights by civil aircraft, by implication postulated Persian sovereignty over Bahrain. The note had been written without the Foreign Minister, Mr. Entezam's knowledge by a member of his department and to his considerable embarrassment had been addressed to all foreign missions. (It was agreed that to avoid a public argument, neither Government would advertise this episode.) More than once Mr. Entezam reverted to his desire to discuss "outstanding problems" in the Persian Gulf after the oil agreement, and to improve Persia's relations with her neighbours. The visit of the Iraqi Minister of the Interior at the end of the quarter gave promise of more practical co-operation between the two countries in considering their common problems and their differences, the latter largely concerned with frontiers.

Economic

15. Persia's internal economy showed some improvement though this was due to force of circumstances rather than to any positive achievements on the Government's part. The harvest was good, the Central Bank followed a cautious monetary policy, and the rate of increase in the cost of living declined. The energies of the Government were largely absorbed by the oil negotiations and, while the agreement and the attendant payments arrangements should provide sound foundations on which to build, there

was little actual progress made in other spheres. The yawning gap in the budget remained, only partially filled by United States aid. And except for the appointment of Mr. Ebtehaj as head of the Seven-Year Plan, little attempt was made to prepare the framework for future development. With the Shah's backing, Mr. Ebtehaj started on his lonely task of bringing order into the country's development. He began by trying to call a temporary halt to the initiation of fresh projects while a stock-taking takes place. And having quickly decided that the budget would absorb the bulk of the oil revenues for some time to come, he set about raising fresh funds from other sources, including the World Bank. But already he is facing opposition from many quarters.

16. If any reminder of Persian dislike of planning was necessary it was provided by the foreign exchange situation. The wave of optimism engendered by the oil negotiations led to heavy imports and the rapid exhaustion of Persia's small exchange reserves. Unable to control the flood, the Persians in September had to cease payment in most currencies including sterling and to live in hope that the great exporting countries will tide them over their temporary difficulties.

17. I am sending copies of this despatch to Her Majesty's Representatives at Washington and Bagdad and to the heads of the British Middle East Office at Fayid and Beirut.

I have, &c.

R. B. STEVENS.

EP 1051/34

No. 32

ANGLO-PERSIAN RELATIONS

Sir Roger Stevens to Mr. Eden. (Received October 29)

(No. 66 Saving. Secret)
(Telegraphic)

Tehran,
October 25, 1954.

I had a long audience with the Shah on October 23.

2. First we spoke about the oil agreement. I said that His Imperial Majesty must be extremely happy and gratified that it had passed the Majlis by such a large majority and that I was sure his personal intervention had helped to reduce the opposition to such small proportions. He gave me in reply a brief account of the methods he had used—a combination of argument, cajolment and threats—to bring deputies to the right state of mind, and also of the criticisms he had been subjected to for intervening too actively. He also said that compared with his own full-blooded endorsement of the agreement the attitude of some of his Ministers to

SECRET

judge from their public utterances, appeared half-hearted and cautious, which was a pity. I said that I was glad to observe that in his concluding speech Dr. Amini had been careful to say that, in describing the agreement as the best that could be had in the circumstances, he had not intended to imply that it was not a good agreement. I added that I was quite sure that the Government was really satisfied with the agreement and that their apparent reservations were largely tactical. The only thing that had worried me a little was that we wanted an agreement that would stand the test of time and some of the remarks made might be quoted twenty years hence in support of the incorrect thesis that the Government at the time was lukewarm towards the agreement. The Shah said this was bound to happen anyway; changes in circumstances might necessitate modifications; he hoped that as time went by increasing numbers of Iranian technicians would be employed; the whole structure of Middle East oil development might be transformed; after all, ten years ago a 50/50 arrangement would have been unheard of in the Middle East; and so forth. Meanwhile, however, he was sure that the agreement was the best in the world and more satisfactory than the arrangement in Venezuela. I replied that we wanted the agreement to last, adding that I was sure the Consortium being broad based would be realistic and flexible in applying it.

2. We then discussed the importance of efficient utilisation of the oil revenues. The Shah said that a committee was being set up of which he would be the chairman. It was a subject in which he had to take a close and personal interest, as the whole future of Iran depended upon it. He did not demur when I said that in the earlier stages some of the oil revenues would have to be devoted to budgetary purposes, but that later on I hoped that the bulk would go to development. He said that he had high hopes regarding the utilisation of oil found at Kum. He also hoped that oil in appreciable quantities would be discovered in every province of Iran. He spoke disparagingly of the project for a pipeline from Ahwaz to Tehran which he thought would prove unnecessary.

3. The Shah then turned to the question of foreign assistance. He said that the Americans were proposing to make a 30 million dollar loan for budgetary purposes repayable over twenty-five years; and he hoped that Mr. Henderson might return from Washington with other proposals in his pocket. He reminded me that he had suggested on an earlier occasion that it would be appropriate if we were to make a generous gesture of some kind, and he asked what we could do in this connection, referring as he did to "another Point IV." I told His Imperial Majesty about the offer of £5 millions credit and explained that the whole matter was under discussion in London during the visit of the director of the Bank Melli. I could not say at the moment what would come out of these discussions, but I could assure him that Her Majesty's Government would make an effort within the limits of their capacity to help Iran with her short-term foreign exchange difficulties. I then referred to the possibility of technical assistance provided by the British Middle East Office and asked the Shah if he would like to see the Director of the Development Division, Mr. Crawford, who was at the moment on a visit to Tehran. He said that he would gladly do so and expressed particular interest in receiving assistance in the field of forestry. He spoke with emotion on the subject of the appalling deforestation of the country. He said the Government needed to employ some 12,000 forest guards and required about fifty technical experts to help with a programme of conservation and reforestation. He thought Colonel Maitland before his death had given a valuable indication of the lines along which such a programme could be operated, but what was now wanted was that it should be implemented, and for this purpose substantial technical assistance, and not merely a single adviser to draft a blue print, was wanted. He very much hoped that this was a form of assistance which Her Majesty's Government might be able to undertake. If the British Middle East Office had no funds for the purpose of providing the necessary personnel perhaps the responsibility could be undertaken by Her Majesty's Government. I said that we had many calls upon our limited number of experts in this field but that I would certainly report His Majesty's suggestion and also discuss the matter with Mr. Crawford during his visit.

4. We then turned to the subject of the Shah's visit to the United Kingdom. I conveyed to His Imperial Majesty the messages from Her Majesty and from yourself in, respectively, paragraphs 2 and 3 and paragraph 4 of your despatch No. 164 of October 6. The Shah was obviously disappointed to learn that he would not be invited to stay at Buckingham Palace. He did not show much enthusiasm about Sandringham or express any particular interest in having a day's

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shooting. He spent some time turning over in his mind whether his visit should be formal or an informal one saying that the arguments in favour of a formal visit were that the resumption of relations and the conclusion of the oil agreement provided a suitable opportunity, and he did not know when he would have another chance of visiting the United Kingdom again. On the other hand, the rest of his tour was informal, and it would be difficult to sandwich a formal visit to the United Kingdom into the middle of it. I did my best to discourage the idea of a formal visit saying that it would need considerably more preparation and might not be possible in the time available and would also leave less time for official discussions. The Shah then asked me what kind of visit it was that he had paid to the United Kingdom last time. I said that I believed it was a private one; could he tell me where he stayed? He said he thought he remembered having spent two nights at Buckingham Palace. I said I would take note of this and make some further enquiries. The Shah then said that assuming his visit was private and that he did not stay at Buckingham Palace the question arose how he should conduct his business while in London. He made it politely, but firmly, clear that he would give audiences rather than pay visits. He wondered how this could be arranged if he stayed at an hotel. If he were to stay at the Iranian Embassy he could naturally give audiences there, but he indicated a preference for staying at an hotel providing some suitable place could be put at his disposal by Her Majesty's Government to receive visitors. I said that I would go into this matter with all speed.

5. I then asked His Imperial Majesty what subjects he thought he would like to discuss while in London. He said that he was particularly concerned with the whole question of Middle Eastern pacts and alliances. He would want to know whether Her Majesty's Government favoured the growth of mutual assistance pacts under Article 51 of the United Nations Charter or some wider grouping based, for example, on the common faith of Islam—in other words, an extension of the Turco-Pakistan Pact to include Iran and Iraq or some looser arrangement which might embrace the whole Arab world as well. He said that he would be ready to describe his own plans for the building up of Iranian defence and to indicate what he thought Iran could afford herself over the next few years. He would say to us, and to the Americans when he got to Washington, that if we attached importance to the place Iran occupies in a Middle Eastern defence system it would be up to us to supply additional funds and material over the next few years in order to provide a more rapid build-up for the Iranian forces. He would like to discuss this aspect of our common problems. Bearing in mind the suspicions which still prevailed about our readiness to compromise with Communism, I suggested that he might like to take the opportunity of his visit to England to hear something about our general policy in the cold war. He said that he would very much like to do so and spoke in enthusiastic terms of the successful efforts which you, Sir, had made to consolidate Western Europe since the rejection of E.D.C. by the French Assembly.

6. In the course of the discussion about the Shah's visit I also gave him the message to your telegram 1168 of October 21. The Shah said that he had carefully weighed the pros and cons of making his visit in the winter and the spring. He had come to the conclusion that it would be better for him to be away while the plans for financial and social reform and for the proper utilisation of the oil revenues were in preparation returning when they were ready to be executed. From the point of view of discussions with Her Majesty's Government he thought there would be some advantage in having these before the situation, both in Iran and as regards the Middle East generally, had crystallised too far. When I suggested that he might give some clear public indication of his support for General Zahedi before his departure he said that he had decided to give the present Government a chance to introduce reforms and, until they had had that chance, he was prepared to back them. Implying that this was now generally known here, he said that his intention to leave the country had got the critics of the Government seriously worried. They professed to be afraid that the Government would take drastic action against them during his absence and also that giving the Government an extension of life would be an encouragement to corruption. I remarked that the charges of corruption were greatly exaggerated; it seemed to me that it existed principally in the lower ranks of the civil service, which would be likely under any Government, and could only be eradicated by higher salaries and a reduction in the number of civil servants. The Shah agreed with this, and repeated that he was quite prepared to give General

Zahedi's Government a chance. He would leave them in no doubt before his departure that they were being put to the test and that he expected them to deliver the goods on his return. (At the same time he referred disparagingly to Prime Ministers who surrounded themselves with business men and contract seekers.) I suggested that he might make a public statement designed at once to encourage them in this direction and to show the people that the Government had his support. He did not reply directly to this and I think that I may have to do some more work on him before he can be brought to make the kind of statement suggested in the first paragraph of your telegram 1168.

EP 1941/37

No. 33

SUCCESSION TO THE PERSIAN THRONE

Sir Roger Stevens to Sir Anthony Eden. (Received November 19)

(No. 93. Confidential)
Sir,

*Tehran,
November 16, 1954.*

I have the honour to report that the recent death of Prince Ali Reza in an aeroplane accident has raised in many Persian minds the question of the succession to the Persian Throne. As you know, Sir, there has so far been no issue from the Shah's marriage with Queen Suraya, and the only child of his previous marriage with Queen Fauzieh was a daughter born in 1940. Although he had not been so designated, Prince Ali Reza was generally regarded as the natural successor to the Shah if the latter should have no male heir, not only because he was the next eldest son of Reza Shah but also because he was generally considered to have inherited the necessary attributes from his father.

2. The position now is unclear, partly because the Shah has never brought himself to tackle the problem of the succession, which Prince Ali Reza's death leaves even more open than it was before, and partly because of obscurities in the Persian Constitution. The relevant provisions are Articles 36 and 37 of the Supplementary Constitutional Law of 1907 which were amended by a Constituent Assembly on the 12th of December, 1925, at the change of dynasty. These Articles in translation read as follows:—

Article 36

"The constitutional monarchy of Iran is vested by the people through the Constituent Assembly in the person of His Imperial Majesty Reza Shah Pahlavi and his male descendants in succession."

Article 37

"The [right of] succession to the Throne shall rest with the eldest son of the King, whose mother must be of Iranian origin.⁽¹⁾ If the King has no male child, the nomination of the Crown Prince shall be made at the suggestion of the King and with the approval of the National Consultative Assembly, on condition that this Crown Prince shall not be of the Qajar family; but at any time, if a son is born to the King, he shall be Crown Prince by right."

The original Article 37 of the Law before the 1925 amendment read as follows:—

Old Article 37

"The succession to the Throne, when there is more than one son, passes to the eldest son of the King whose mother is a Princess of Iranian origin. In case the King should have no male issue, the eldest [person] in the Royal Family who is next of kin shall succeed to the Throne. If, however, in the hypothetical case mentioned above, male heirs should subsequently be born to the King, the succession will *de jure* revert to such heir."

⁽¹⁾ This Article so far as it concerns the words "Iranian origin" was interpreted as follows by Act of the Majles, approved on November 5, 1938:—

"By 'mother of Iranian origin' mentioned in Article 37 of the Supplementary Constitutional Law a mother is meant who in accordance with Paragraph 2 of Article 976 of the Civil Code is of Iranian ancestry, or a mother who prior to marriage with the King or with the Crown Prince of Iran should have been granted Iranian quality, as required by the high interests of the country, on the recommendation of the Government, with the approval of the National Consultative Assembly and by decree of the reigning Sovereign."

3. Most discussion so far has centred on the phrase in Article 37 "on condition that this Crown Prince shall not be of the Qajar family." Whereas the present Shah and Prince Ali Reza have no Qajar blood, the other five surviving sons of Reza Shah had mothers of Qajar stock. There is no such person as a recognised constitutional lawyer in this country whom one can consult and in any case formal interpretation of the Constitution can only be made by the Majles; but many persons, including Members of Parliament and lawyers, interpret the above provision of Article 37 as excluding from the succession any persons with Qajar blood. There are, however, other lawyers of repute who maintain that the Shah's younger brothers are eligible for the succession as their father was a Pahlavi and it is paternity which determines the family to which the children belong. In this interpretation much of Persian and Muslim law and tradition is on their side and it may be that their opinion will eventually carry the day.

4. Another complication is that Prince Ali Reza left a seven-year-old son, Ali Pahlavi, born of a marriage with a Polish lady in France. The marriage was, as far as I know, not officially recognised by the Royal Family and is understood to have been dissolved. Mother and son are both in Tehran. The boy's right to the succession is obscure. The first sentence of the new Article 37 can conceivably be read to suggest that it is only the eldest son of the King whose mother need be of Iranian origin in order for him to qualify as Crown Prince, and that, therefore, Ali Pahlavi would be eligible. However, it is generally accepted, by lawyers as well as laymen, that this condition, which is similar to the one in the old Article 37, was always intended to apply to the Crown Prince, whether he should be the eldest son of the Shah or not, and that Ali Pahlavi is thereby excluded.

5. One cannot, however, exclude the possibility of an interpretation being made to suit the circumstances, although probably not to the extent of the 1938 case when the Majles (see paragraph 2 above) adopted Reza Shah's far-fetched interpretation of the word "origin" to cover the present Shah's marriage with Princess Fauzieh. The general feeling at the moment seems to be that the Parliament or a Constituent Assembly would accept almost any reasonable proposal from the Shah about his successor and interpret or amend the Constitution as necessary.

6. The Shah himself, however, remains hesitant. He is still hoping for a son. According to what he told me himself recently (my telegram Saving No. 71, paragraph 4) he wants definitely to establish the prospects of Queen Suraya having a child on the basis of medical advice during his forthcoming visit to the United States. Until he has done so, he does not wish to commit himself. He admits that Prince Ali Reza's death makes the question more pressing but to his mind this reinforces not the immediate need to appoint a successor, but the urgency of visiting the United States. His advisers on the other hand see grave danger in his making a long journey partly by air, without first naming a successor; and there has already been much talk of forbidding the Shah from travelling in aeroplanes. The problem of the succession in relation to the Shah's forthcoming tour is thus unresolved and may well give rise to further controversy before his departure.

7. Other factors which might affect the issue are:—

- (i) none of the Shah's younger brothers is held in anything like the regard and affection which the people had for Prince Ali Reza;
- (ii) Prince Ali Reza was the Queen Mother's favourite son and she may be tempted to promote the cause of his son, Ali;
- (iii) a number of persons have even been mooted the idea that the Shah might be succeeded by his daughter, Shahnaz.

8. I shall not fail to keep you informed of any significant developments in this matter.

9. I am copying this despatch to Her Majesty's Ambassador at Washington.

I have, &c.

R. B. STEVENS.

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EP 11318/3

No. 34

CONCLUSION OF COMMERCIAL RELATIONS BETWEEN PERSIA AND THE FEDERAL REPUBLIC OF GERMANY

Mr. Wright to Sir Anthony Eden. (Received December 3)

(No. 97 E.)

Sir,

Tehran,

November 30, 1954.

I have the honour to report that important commercial negotiations between Persia and the Federal Republic of Germany were concluded on the 9th of November in Tehran. The negotiations covered economic and technical co-operation, the confirmation of a number of commercial treaties signed in 1929 and trade and payments for the next twelve months. In addition, there appear to have been some inconclusive discussions about the provision of medium term credits for Persia.

2. The text⁽¹⁾ of the agreement regarding economic and technical co-operation is enclosed as Annexure 1. It is a broad agreement within the framework of which a number of special agreements are later to be negotiated, and it provides not only for the exchange of technical information, but also for co-operation over development projects. It also contains provisions for the protection of German investments in Persia.

3. According to a statement made by the head of the German delegation to a private meeting of Persian importers, the first result of this agreement is likely to be the despatch of two agricultural and two mining experts to Persia. We have, however, been told by the German Legation in Tehran that any experts which are sent will have to be paid by the Persian Government. Again according to the German Legation in Tehran this agreement may also lead to German investments in Persia, but no decisions are likely to be taken until the publication of the Bill for the Protection of Foreign Capital, which the Persian Government are at present preparing.

4. The negotiations reaffirmed the validity of the following agreements signed in 1929: the Treaty of Amity, the Treaty of Establishment, the Treaty of Commerce and Navigation; and the Agreement regarding Trade Marks and Patents signed in 1930. The text of the first three agreements are enclosed for convenience of reference as Annexures 3⁽¹⁾, 4⁽¹⁾ and 5⁽¹⁾. These agreements are to enter into force immediately subject to the re-negotiation of certain articles specified in a Protocol, which is enclosed as Annexure 2⁽¹⁾. The following are the main changes which are to be made in the old agreements:—

Article 4 of the Treaty of Amity is to be altered in order to substitute arbitration by the International Court of Justice for the arbitration procedure provided in the original Treaty.

Article 5 of the Treaty of Establishment is to be completed by an agreement regarding double taxation.

Article 6 of the Treaty of Commerce and Navigation is to be modified, presumably in order to give the Persians more scope in imposing import restrictions.

Article 10 of the Treaty of Commerce and Navigation is to be completed by a special agreement about navigation.

Finally, it has been agreed that most favoured nation treatment should be provided on a reciprocal basis.

5. The arrangements for trade over the next twelve months aim at achieving a figure of \$60 millions for the German exports to Persia and \$30 millions for Persian exports to Germany (during the first seven months of this year German exports to Persia amounted to \$28 millions and Persian exports to Germany to \$11 millions). The disequilibrium in trade has been glossed over in statements to the Persian Press, which speak of a trade of \$60 millions each way. The Protocol governing these arrangements is enclosed as Annexures 6 and 7*. In the case of German exports, no individual quotas have been fixed for capital goods, but it has

⁽¹⁾ Not printed.

SECRET

been agreed that these would be subject to a global quota of \$40 millions. Individual quotas totalling \$20 millions have been fixed for less essentials. Purchases by the Persian Government for development purposes will figure in a special account, which will not be subject to any of the above limitations. As regards Persian exports, quotas have been fixed for all goods which are normally exchanged between the two countries, but no limit has been set on goods which are difficult to export. The Western German authorities have also promised that they would do their best to facilitate Persian exports to Germany and have agreed to reduce the Customs duties on carpets. The Persian authorities for their part have promised to do their best to improve administrative and material facilities for clearing goods at Persian ports, a point about which both the Germans and the Dutch have been complaining recently.

6. The payments arrangements until next September are governed by a Protocol which is enclosed as Annexure 8⁽¹⁾. Under this Protocol the credit of \$8 millions provided by Germany under the swing facilities in the existing clearing agreement is being transferred to a special account, and a fresh credit of \$8 millions, half of which will be provided by the Bank Deutscher Laender and half by German exporters will be made available. The German exporters have in effect had to agree to the possibility of a 50 per cent. moratorium on goods paid for between now and May (see (b) below). This additional credit is repayable by the 31st May and the original credit is repayable by the 31st September. The additional credit is to be used for the following purposes:—

- (a) The payment of letters of credit opened before the 31st October, 1954, all the payments of Category 2 imports and payments for invisibles up to a total of \$600,000 a month.
- (b) 50 per cent. of other payments due to Germany. The balance of 50 per cent. is to be paid to German exporters in chronological order in so far as current resources permit, and in any case not later than the end of May 1955.

7. According to the Bank Melli there are some \$14 millions worth of drafts for German goods outstanding at the present time, and even taking into account receipts from Persian exports to Germany during the next six months, it looks as though German firms are going to have to wait for part of their money both in the case of goods already shipped and of new business. Repayment of the two credits provided by Western Germany can be in dollars, sterling or any other currency agreed between the two Governments. I understand, however, that the Persians have firmly refused to make payments in dollars. Payments arrangements after the 1st of October 1955 are to form the subject of further negotiations, when I understand the Germans hope to do away with the present clearing agreement in favour of some form of convertibility.

8. There have also been some discussions about a German credit to Persia, but it has so far been difficult to obtain any reliable information on this point. The head of the German delegation told a meeting of Persian importers that Western Germany would be prepared to give credits of up to four years at interest rates of the order of 8½–9 per cent. One and a half per cent. of this would be to cover the cost of insurance by the Hermes Company, and the balance would be interest charges. Dr. Reinhardt admitted that the rate of interest was high owing to the tightness of credit in Western Germany, but he expressed the hope that it would fall in a few month's time. We have also been told by Persian officials that the Federal Government had offered a one hundred million mark credit for the development of Persian industry but, according to the German Legation, this was simply a dressed up offer of the facilities already provided by the Hermes Insurance Company. In any case the head of the Seven Year Plan Organisation claims to have turned down German offers of credit on the grounds that, as in the case of the French offer of a five billion franc credit, the rate of interest charged was too high.

9. The agreements reached seem to have been received with mixed feelings on the German side. The German delegation had, I understand, hoped to induce the Persians to abolish the clearing agreement and to pay interest on the short term credit which they were being given. But they met with a stubborn refusal on this point. And now, according to the German Legation, German exporters are complaining that the enforced 50 per cent. credit which they are providing is placing a great strain on their resources and that the loss of interest on the money outstanding will wipe out much of their profit.

⁽¹⁾ Not printed.

10. If one looks beyond these immediate difficulties however, the agreement represents a substantial achievement from the German point of view and may well prove a milestone in Persian-German economic relations. The trade figures aimed at, though high, seem realistic and they establish the principle, which the Persian Ministry of National Economy contested, that Persia's imports from Germany are bound to be well in excess of her exports to Germany. The revival of the 1929 agreements should also provide a firmer basis for German trade and above all the agreement regarding technical and economic co-operation opens the door to a revival of German influence on something like its pre-war scale. Although the ideas contained in the agreement have still to be adumbrated this is a development which, from a commercial point of view, we shall have to watch closely.

11. I am sending a copy of this despatch to the Commercial Relations and Exports Department, Board of Trade, Her Majesty's Treasury, the Export Credits Guarantee Department, the United Kingdom High Commissioner at Bonn and to the British Middle East Office, Beirut.

I have, &c.

DENIS WRIGHT,

Her Majesty's Chargé d'Affaires.

EP 10338/8

No. 35

SOVIET-PERSIAN AGREEMENT ON FINANCIAL AND FRONTIER MATTERS

Mr. Wright to Mr. Fry. (Received December 14)

(No. 10338/20/54. Confidential)

Tehran,

December 8, 1954.

Sir,
In my telegram No. 1347 of December 2 (not repeated to other posts), I reported that the Soviet-Persian agreement on financial and frontier matters had been signed that day. Lavrentiev, the Soviet Ambassador, signed for the Russians and Hamid Sayyah (1952 Personalities No. 176), the leader of the Persian delegation who hopes to go to Moscow as Ambassador, for the Persians. The agreement is now being submitted to the Majlis and Senate for ratification.

2. The text of the agreement will not be available until later to-day, it having only been presented yesterday to the Majlis by the Minister for Foreign Affairs. A translation will be sent as soon as possible. On the financial side by way of settlement of all wartime claims of the Persian Government, I understand that it provides for delivery by the Soviet Union of 11·8 tons of gold in two equal instalments at an interval of one week, starting a fortnight after the instruments of ratification are exchanged; and for the delivery of two lots of merchandise, one valued at United States \$8 millions and the other at 10 million rials within a year. On the boundaries, the Press (which is far from reliable) reports that some 500 square km. will be restored to Persia in five areas east and west of the Caspian; and that the marking of the agreed frontier will start three months after the exchange of instruments and be completed within eighteen months.

3. The settlement of the financial claims, though long overdue, is a feather in the Persians' cap. Against this, there is no doubt that, on the frontier side, the Persians have had to make unpalatable concessions such as abandoning their claim to Firuzeh. There is, nevertheless, every prospect of the agreement's being ratified here, though how long the process will take is uncertain. The local Press, which has been forecasting a "new look" in Soviet policy in this part of the world (quoting as example the Bulganin incident reported in Moscow telegram No. 1074 to the Foreign Office of November 10), have given it a warm welcome; so also have such members of the Government and public with whom I have spoken.

4. I am copying this letter to the Chanceries at Moscow, Washington, Ankara, and B.M.E.O., Nicosia.

I have, &c.

D. A. H. WRIGHT.

EP 1902/1

No. 35A

IRAN: HEADS OF FOREIGN MISSIONS

Sir Roger Stevens to Sir Anthony Eden. (Received November 12)

(No. 84. Confidential) *Tehran,*
Sir, *November 8, 1954.*

With reference to Mr. Middleton's despatch No. 233 of the 8th of July, 1952, I have the honour to transmit herewith my report on Heads of Missions in Tehran for 1954. The delay in submitting this report is regretted.

I have, &c.

R. B. STEVENS.

Enclosure

(Passages marked with an asterisk are reproduced from previous reports.)

Afghanistan

Vacant. Chargé d'Affaires: Mohammad Yunos Khan, First Secretary (arrived June 17, 1952).
Rather a surly-looking individual who appears at mass gatherings but has never called on me.

Argentina

Minister: Benito Pedro Llambi (February 17, 1952).

*Born 1907. After an uneventful military career he joined the Diplomatic Service in 1945 with the rank of Counsellor and Consul-General. Appointed Minister in Sweden in 1946. Has been absent quite a lot from Tehran, but seems disposed to be friendly.

Married to a colourful Spanish girl some twenty years younger than himself. They have two small children. (Written in 1952.)

I knew the Llambis in Stockholm. They are pleasant colleagues. They lead a very social life and are on more intimate terms with the Shah and Queen Sorayya than any other foreign diplomats at present. So far as I know, however, he is careful to avoid becoming entangled in local politics.

Austria

Minister: Erich Bielka-Karltru (June 23, 1952).

*A career official who has recently served in the Ministry at Vienna and was previously at Cairo. Friendly, and apparently well disposed. He speaks fair English and excellent French. Normally resident at Ankara. (Written in 1952.)

Visited Tehran in October 1954. Makes favourable impression.

Belgium

Minister: L. A. Goffin (August 13, 1951).

Before coming here in 1951, M. Goffin was Belgian Ambassador in Moscow. Then in his mid-forties, he must have been one of their youngest Heads of Mission. Unhappily over-addiction to drink led to "demotion". This addiction still persists, but at other times M. Goffin is lively, well informed and

friendly. He thrives in the atmosphere of Tehran, being himself something of a gossip and an intriguer.

He and his young wife both speak excellent English.

Brazil

Minister: Antonio Mendes Vianna (April 26, 1954).

Born 1908. Educated at the Law Faculty in Rio de Janeiro. A career member of the Brazilian Foreign Service since 1948, his last post having been Consul-General at Antwerp. Was Brazilian delegate on the United Nations Commission of Enquiry on the Balkans in 1947.

Although he resembles a grossly inflated toad, he is not without charm, and has cultivated tastes. He speaks excellent French. His wife has just arrived. In her absence there was ample consolation.

Chile

Minister: Dr. Samuel Avendano.

Resident in Ankara. I have not met him, and believe he has not yet presented his credentials here.

China (Nationalist)

Counsellor: Shao Chang Hsu.

*We have no official relations with this Mission. Mr. Hsu, who was previously in Rangoon, is intelligent and disposed to be friendly. His wife is charming. (Written in 1952.)

Czechoslovakia

Minister: Dr. Joseph Zahora (January 14, 1953).

Middle-aged and rather benign. More polished and more easy to talk to than the other Iron Curtain representatives here. Believed to be a former University lecturer. Speaks French.

Denmark

Minister: Axel Kaspar Frederick Sporon-Fiedler (October 14, 1947).

*Before coming to Persia he was for many years Consul-General in San Francisco and had obviously taken root there. He is meticulously formal and precise, but hospitable and kindly. Mme. Sporon-Fiedler, though vague, is agreeable. (Written in 1951.) Both speak good English and are extremely friendly.

Egypt

Ambassador: Mohammad Abdel Chafi el Labbane (May 9, 1954).

Born 1905. Graduated in law from the University of Grenoble. A career diplomat. In 1936 was a member of the Egyptian Delegation for treaty negotiations with Great Britain and afterwards on the secretariat of the Egyptian delegation to Montreux. He was Chargé d'Affaires in Madrid and Counsellor in Washington prior to his present appointment.

He is affable when one meets him, but rumour and a limited experience suggest that he is a slippery customer.

Ethiopia

Minister: Gabre Mascall Keflegzi (July 27, 1953). Resident in New Delhi. I have not yet met him.

Finland

Minister: Bruno Rafael Kivikoski (designate). Resident in Ankara.

France

Ambassador: François Coulet (July 10, 1950).

*Born in 1906 and graduated from the Ecole Libre des Sciences Politiques. Joined the Diplomatic Service in 1935 and served at Moscow and Helsinki. Joined the Free French Forces on June 19, 1940, and was duly dismissed by Vichy a month later. He was Chef du Cabinet to General de Gaulle from 1941 to 1943, when he was appointed Secretary-General at the Préfecture of Corsica for a short period. Subsequently returned to England and was sent in June 1944 to be General de Gaulle's Regional Commissioner in Normandy immediately after the Allied landings. After the liberation of Paris he was for a time delegate for Inter-Allied Relations at the Quai d'Orsay until he became Director of European Affairs in 1945. Appointed Minister at Helsinki in 1947. (Written in 1951.)

M. Coulet is now doyen, a role he performs characteristically with more dignity than warmth. His attitude towards his colleagues and many Persians is lofty and condescending. He gives the impression of being thoroughly cynical and disillusioned. He is both able and active, but I fear that his judgment is often warped by a strain of self-importance verging on exhibitionism. Personally I have found him a helpful colleague and, so far as I can judge, a reliable one. Unfortunately his relations, and those of his Embassy as a whole, with the Americans leave much to be desired.

Mme. Coulet is a Canadian by birth and was formerly married to the Hon. Quintin Hogg (now Lord Hailsham). Her personal qualities are not unlike her present husband's.

Germany (Federal Republic)

Minister: Dr. Lutz Gielhammer (October 1, 1953).

More of a bank official than a diplomat and consequently seems always a little lost. Worked for a number of years before the war in Persia with the Bank Melli. (Kermanshah 1929-34; then Tabriz and Tehran, returning to Germany in 1938.)

Speaks Persian and fair English and is a student of Persian history. Is said to have a good anti-Nazi record. His wife is a typical German *hausfrau*.

Greece

Minister: Jean Callergis (designate). Resident in Ankara.

Holy See

Internuncio: Mgr. Raffaele Forni (November 16, 1953).

Italian-Swiss by birth. Is titular Archbishop of Eger. A charming, friendly and intelligent priest of the "worldly" type who has previously served in Ottawa and appears to have a genuine admiration of British methods and institutions.

Hungary

Minister: Istvan Murai (December 22, 1951).

*Believed to have been a carpenter and one-time Mayor of Budapest. Served in Paris (where he was also Chargé d'Affaires to the Spanish Republican Government) and Rome. He is not much seen and is said to be responsible for much covert work for the Soviet. Speaks some French in a high squeaky voice. His wife is a grim woman. (Written in 1952.)

Iceland

Minister: Dr. Helgi Palson Briem (September 29, 1951).

*Also Minister to Sweden, Finland and the Soviet Union. Does not appear in Tehran. (Written in 1951.)

I knew Dr. Briem, whose parish is remarkably wide, in Stockholm. He is pleasant enough, with an English wife. He has not appeared here since my arrival.

Indonesia

Minister: Mahmud L. Latjuba (May 23, 1953).

A tight-lipped little man who seems reluctant to converse though his English is reasonably good. I fancy he is full of nationalistic and anti-colonial traits, and he is still a Deputy in the Indonesian Parliament. His wife looks rather pleasanter.

Iraq

Ambassador: Baha Uddin Nuri (June 8, 1953). Formerly Chargé d'Affaires (August 31, 1951).

A friendly colleague who speaks good English. He is inclined to regard the Persians as rather ridiculous people and becomes incensed over Persian claims to Bahrain. (Written in 1952.)

Promoted Ambassador *sur place*. A Kurd and an ex-General in the Iraqi Army, from which he is said to have resigned in protest against the Government's anti-Kurdish policy. Sensible and helpful, but not very much liked by many Persians, whom he makes no attempt to flatter, and perhaps on that account less influential than he could be.

Italy

Ambassador: Baron Giuseppe Vitaliano Confalonieri (June 17, 1954).

Born 1900 in Milan. Has served in France (in Lyons during the war), Ireland, Geneva, Czechoslovakia, Tripoli (since the war), and at the Ministry of Foreign Affairs.

On first acquaintance appears vague and shifty, but is abler and straighter than he looks. Was left a fortune by his first wife and is now married to an attractive and very Irish woman who was herself formerly married to a Czech. Since his second marriage has been very pro-British. Is reported to be disliked by the French because of his wartime activities in Lyons, and to reciprocate.

I have found him particularly friendly to the British and he and his wife are most hospitable.

Japan

Minister: Suemitsu Kadowaki (May 26, 1954).

Born 1898. Graduate in Political Science of Tokyo Imperial University. Served in Paris, various delegations to the League of Nations, Peking, Tientsin and Tsingtao. After service in Tokyo was appointed Counsellor in Moscow, where he served most of the war.

On return to Japan in 1949 he retired and was employed by the Caltex Petroleum Company, which may explain his recall to the Foreign Service and appointment to Tehran.

He seems anxious to be friendly. He speaks fair English.

Jordan

Ambassador: Ihsan Essaid (October 6, 1954).

Until recently Counsellor and Chargé d'Affaires at Ankara. At one time an official in the Palestine Administration, and served as assistant to the Resident Adviser to the Government of Aden, 1939-40.

He seems friendly and agreeable though not perhaps of high calibre. Has strong views on the

Arab/Israel dispute, perhaps because he is a native of Palestine and lost his property there.

His wife was formerly lady-in-waiting to the Queen Mother of Jordan. His eldest son hopes to go to London University.

Lebanon

Minister: Mohammad Sabra (May 26, 1954).

Formerly Counsellor in Buenos Aires. He and his attractive wife are both Moslems. They seem intelligent, pleasant and friendly.

Netherlands

Minister: Baron W. J. O. Gevers (March 16, 1954).

A career diplomat who has served for some years in London (latterly as Minister/Counsellor) and speaks excellent English. Urbane, agreeable, friendly and very pro-British. I have seen a lot of Baron Gevers during the oil negotiations and found him pleasant and sensible to work with. He may not be brilliant, but conceals a good deal of ability under an easy-going manner.

Norway

Minister: Ernest Krogh-Hansen (October 16, 1950).

*Resident in Ankara. Is seldom seen in Tehran but is friendly and punctilious when he does appear. (Written in 1952.)

Poland

Chargé d'Affaires: Kazimiera Smiganowski (July 22, 1947).

*A satellite, friendly in manner, who has recently married his secretary. (Written in January 1951.)

Roumania

Minister: Traian Micou (August 18, 1952).

An unimpressive and small man who is less inclined than his Czech and Polish colleagues to mix with Western diplomats.

Saudi Arabia

Minister: Hamzeh Gows (May 26, 1948).

*I only know that he is amiable and picturesque, but he talks no European language. His Arab dress adds to the colour of Tehran receptions. (Written in January 1951.)

Has acquired a young Persian wife and child who are sometimes seen in public.

Soviet Union

Ambassador: Anatoli Iosiphovitch Lavrentiev (August 1, 1953).

He was Ambassador in Belgrade at the time of Tito's break with Stalin. He arrived here at a time when Soviet hopes must have been high. However, within a few days Musaddeq had been overthrown and Lavrentiev himself was the subject of wild rumours. Some said he had been shot, others that he had had a stroke or a heart-attack. He looks fit enough now, but the signature of the oil agreement and the current drive against the Tudeh Party must be giving him cause for concern.

He cultivates an air of brusque *bonhomie*, but the *bonhomie* has been wearing thin of late. He has the reputation of being stupid, but I think it safer to assume that he is shrewd and dangerous, but a bit worried about his standing in Moscow. Speaks some French. Has a wife who is more of a mixer than most Soviet wives.

Spain

Minister: Isidro de las Cagigas Lopez (August 23, 1954).

An elderly diplomat, who is something of an orientalist. He has spent so long in Arab countries

that he is really no longer presentable. His wife seems better.

Sweden

Minister: Ragnvald Richardson Bagge (February 18, 1953).

A pleasant, well-informed, friendly, but very talkative colleague with an attractive Finnish wife. Was in charge of the Press Section of the Swedish Ministry of Foreign Affairs during the war. Has previously served as Minister in South America and Minister/Counsellor in Washington. He and his wife talk excellent English. He was born in Canada, where his father was Swedish Representative at the time. While not in the highest flight of Swedish diplomats he is a very satisfactory colleague.

Switzerland

Minister: Dr. Roy Ganz (designate).

I understand Dr. Ganz is a lawyer by profession who previously served in Helsinki. A First Secretary, M. Marcel Grossenbacher, is at present in charge. He and his wife are a friendly but retiring couple.

Syria

Vacant. Chargé d'Affaires: Abdul-Ghani El-Rafii, Third Secretary (July 10, 1954).

Turkey

Ambassador: Ali Fuat Turkgeldi (August 8, 1951).

*Born about 1891. After being Minister at Rio de Janeiro, Tirana and The Hague was first Turkish Ambassador to India in 1949.

A shrewd and capable career diplomat. He is very well disposed towards us and laments the fact that Persia and the Near East fail to appreciate the value of Western connection as Turkey does. (Written in 1951.)

A kind and friendly man. Unfortunately he is in poor health. Keeps in close touch with internal politics.

United States

Ambassador: Loy W. Henderson (September 29, 1951).

*Born 1892. After service with the Red Cross in the 1914-18 war he joined the Foreign Service in 1922 and served in Baltic countries, and before and during the last war in Moscow, where he was Chargé d'Affaires. Later Minister in Iran and head of the Office of Near Eastern and African Affairs of the State Department. Ambassador to India 1948-51. He is a friendly colleague, who appears genuinely to believe in Anglo-American co-operation and to practise what he believes. Balanced and cautious. (Written in 1951.)

*He is married to a lady of Latvian origin who is incredibly indiscreet and rather a menace. (Written in 1952.)

I have the highest opinion of Mr. Henderson and count myself extremely lucky to have had him as my United States colleague during the oil negotiations. He is widely liked and respected here for his sound judgment, penetrating understanding of the local situation, and firm but unassuming personality. It would be hard to imagine a better representative of his country at this post.

Venezuela

Minister: Dr. Ramon Hernandezron (designate).

Yugoslavia

Minister: Ante Rukavina (February 1, 1954).

Formerly Counsellor in Stockholm. Looks extremely dense and tough but is pleasant, friendly and quite sensible. Speaks fair French. His wife is a bouncing peasant girl.

EP 1534/57

No. 36

OPENING MEETING HELD ON APRIL 14, 1954

(1)

Sir Roger Stevens to Mr. Eden. (Received April 14)

(No. 315. Secret)
(Telegraphic)

*Tehran,
April 14, 1954.*

Oil negotiations.

The opening meeting was held this morning and went off quietly (please see my telegram No. 321).

2. My telegram No. 316 contains text of aide-mémoire which was handed to the Persians on the understanding that it was secret, would not form part of permanent record and would after study be handed back by the Persians. Comment follows in my telegram No. 320.

EP 1534/58

(2)

Sir Roger Stevens to Mr. Eden. (Received April 14)

(No. 316. Secret)
(Telegraphic)

*Tehran,
April 14, 1954.*

Oil negotiations.

Following is text referred to in my immediately preceding telegram.

We appreciate the importance of reaching arrangements which will result in resumption of flow of Iranian oil into the world's market in substantial quantities.

We also appreciate the importance of doing this in a manner which would meet the aspirations of Iran, in particular we would recognise the Government ownership of oil in the ground and of producing and refining facilities.

We hope, for their part, Iran will appreciate the importance which the Consortium attaches to the point that the arrangements need also to be satisfactory to the Consortium from a commercial standpoint.

However, it is not a simple thing to meet both the commercial needs of the Consortium and the aspirations of Iran. We have not therefore prepared a detailed proposal at this time but wish first to outline, as a basis for discussion, some of the more important features of what we have in mind.

As a result of the goodwill established over many years and the investment of huge sums of money in distributing facilities, the members of the Consortium enjoy a very large marketing position in the eastern hemisphere. Nevertheless, it will not be an easy matter to establish the flow of Iranian oil in large quantities.

The crude oil formerly drawn from Iran has been replaced by the plentiful supply of crude oil from other sources. The refining capacity once utilised at Abadan has been supplanted by new refining capacity in other parts of the eastern hemisphere. To an increasingly great extent the Governments of the country in which oil products are consumed have required, and are still requiring, the company to erect refinery in their country.

Despite these difficulties it would be the hope of the Consortium to arrive at a rate of production of Iranian crude (for export as such and for refining) of 30 million tons a year by the end of the first three years' operation.

The operation of the refinery presents even greater problems, and the Consortium does not expect to be able to reach a through-put rate of more than 12.5 million tons a year by the end of the second year's operation. Even this will, of course, depend greatly upon available markets.

The actual production and refinery programme for which the Consortium would strive during the first three years would be:—

A total crude programme (including crude for refining) in the first year 10 MT, in the second year 20 MT, in third year 25 MT.

A refining programme in first year 6.5 MT, in second year 10 MT, in third year 12.5 MT.

The Consortium members feel, if they are to provide a large-scale outlet for Iranian oil, there would need to be a suitable type of agreement between them and the Iranian Government which would make the Iranian oil available on terms and conditions competitive with those prevailing in other Middle East countries. They believe the best method of doing this would be for the Consortium members to be granted, for their own account, certain rights and powers in respect of producing and refining operations including, among other things, the exclusive right to explore for, drill for, produce and refine and the right to transport and export oil and gas together with the right of effective control and management of these operations. It is hoped that a way can be found whereby such an agreement could be made within principles of nationalisation.

It has been assumed that the Government would not wish to have the Consortium participating in internal distribution or operation of Kermanshah refinery or Kidft-i-Shah field. Hence these operations are not included in the plan the Consortium has in mind which in other respects would cover the same area as A.I.O.C. 1933 Agreement.

The duration of the agreement should be comparable with qualifying arrangements in the other Persian Gulf countries in order to make it competitive. The expiration dates in more important cases are:—

Iran, Basrah Petroleum Company, November 30, 1995, Iraq Petroleum Company, March 14, 2000, Mosul Petroleum Company, May 25, 2000. Saudi Arabia, original area, July 14, 1999, additional area 2005. Kuwait, December 23, 2026.

Under plan the Consortium has in mind, the Iranian Government and the Consortium would share equally in profit on the total volume of crude delivered aboard ship for export and that delivered to Abadan refinery for processing. This profit would be the difference between cost of crude thus delivered and a value for that crude which would be related to crude oil selling prices. Payment of Iranian Government share of profit would be made to it by a combination of a payment per ton and payment of Iranian income tax, mainly the latter. All such payments would be in sterling.

As regards refinery, the crude oil delivered to it would be included as stated above in profit share plan. In addition there would be a processing fee on which Iranian income tax would be payable. In this way, the Consortium is convinced that Iran would receive its fair and proper share of the profit attributable to producing and refining activity in Iran taken as a whole on basis consistent with that existing in other Middle East Oil producing countries.

Ownership of existing facilities to be used by the Consortium in Iran would be in the Government, but these facilities would be leased to the Consortium members. A percentage of value of such facilities would be included by the Consortium in its annual operating costs. New facilities required in future would be financed by the Consortium and would immediately become the property of the Government and be leased to Consortium members. A percentage of costs of such new facilities would likewise be included in the annual operating costs. Please pass to Fraser and Hopwood. Harden is not, however, repeating to the American Company concerned.

EP 1534/59

(3)

Sir Roger Stevens to Mr. Eden. (Received April 14)

(No. 319. En clair)
(Telegraphic)

*Tehran,
April 14, 1954.*

Oil negotiations.
Following agreed communiqué was issued at end of this morning's session.
Begins.

The first session of the conference of the Consortium representatives and Persian representatives was held at 11 a.m. on Wednesday, April 14, at the White Palace. To open the meeting Dr. Amini, the Head of the Persian Delegation, made a statement as follows:—

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"I wish you welcome, Gentlemen, on behalf of the Iranian Government and the Iranian Delegation, and hope that you will have a happy and pleasant stay in our country. The efforts made by the friendly countries concerned towards the solution of the oil problem, and which have led to the commencement of discussions, are much appreciated by the Iranian nation and Government. The atmosphere of friendship and good understanding which is essential to the settlement of any dispute, prevails to-day more than ever, and this in itself is the best guarantee of the successful outcome of these negotiations. I can assure you, Gentlemen, that the Iranian Government is determined, as has been pointed out by His Excellency the Prime Minister in his several statements on the subject, to solve the oil problem with due regard to the aspirations and interests of the Iranian people, and to the principles of justice. We have no doubt but that the friendly countries concerned, fully aware of Iran's situation and of the heavy burden of duty which lies on our Government, will co-operate with us in arriving at a solution of the oil problem. The formation of a consortium, with all the difficulties which it has involved, in an outstanding proof of the goodwill and keen interest of the friendly countries concerned in regard to the solution of this difficult problem. You, Gentlemen, who are all of you eminent personalities, have by your presence brought us a firm pledge that the forthcoming discussions will be conducted in an atmosphere of friendliness, cordiality and full understanding and will lead to a mutually satisfactory result."

Mr. Harden, on behalf of the consortium representatives, thanked Dr. Amini for what he had said and added that not only did he reciprocate what His Excellency had said, but he assured the Persian Delegation of the goodwill of the consortium representatives. Mr. Harden felt that in view of this mutual goodwill a suitable solution could be found. Then the points which should be discussed between the representatives of the consortium and the Persian Delegation were mentioned by Mr. Harden and it was agreed that these points should be studied by the Persian Delegation in preparation for discussions at the next meeting. The meeting came to an end at 12.15 p.m. and discussions were adjourned until Saturday, April 17, at 10 a.m.

Ends.

EP 1534/74

No. 37

PROGRESS OF NEGOTIATIONS

Mr. Fry to Mr. Beeley (Washington)

(Secret)

*Foreign Office,
April 23, 1954.*

Dear Beeley,
The telegrams from Tehran will have given you a full account of the progress of the Persian oil negotiations. But it may in any case be useful to you to have our assessment of the present position and we are anxious, for reasons explained below, that this assessment should as far as possible be put across to the State Department.

2. The Persians have objected to almost all features of the proposals put to them: to a profit-sharing agreement in principle, to the very substantial production programme which they were offered, to some aspects of the financial arrangements proposed, to sterling as the currency of the consortium and to British registration of the group service companies. They have agreed in principle to pay compensation to the Anglo-Iranian Oil Company, but obviously are preparing to argue the amount to the last penny. On the other hand, all reports from Tehran, including some useful ones from the Anglo-Iranian Oil Company and Shell representatives there which you have not seen, denote that the Persians certainly want an agreement and indeed that matters are going as well as could be expected. We do not suppose that the Persians will give way easily on all or even on any of the points mentioned above; but we feel reasonably sure that their objections, as they now stand, are only a normal opening gambit, tactics to employ in buying a carpet.

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3. We have seen no signs yet that the Americans take a radically different view, but in view of our experience while the consortium negotiations were going on here you will understand our apprehension that as soon as the going becomes really hard they will begin to think of jettisoning the points of purely British interest. Compensation for the Anglo-Iranian Oil Company is obviously one, although it may be some time before negotiations on that point become critical. Another two, British registration of the group service companies and sterling as the currency of the consortium, may be in danger sooner. For this reason we are anxious both that the State Department should accept our view, which is sincerely held, that it is much too early to think of any concessions at all to the Persians, and that they should be in no doubt of our position on these particular questions.

4. It is, briefly, that in agreeing to the proposals which have been put to the Persians we have accepted a severe loss of both cash and prestige. We are ready to take a much reduced stake in the Persian oil industry (which was a purely British creation) although we do not believe that the consideration from other members of the consortium and the compensation (if any), from the Persians will together prove to be anything like an adequate recompense. The financial arrangements proposed will face us with a considerable dollar drain. We must do what we can to minimise these losses; and compensation, registration and currency are three points at which we can at least do something. (For your own information we are particularly anxious to keep London as the financial centre of the international oil industry. Since the war, Royal Dutch Shell, Iraq Petroleum Company and Kuwait Oil Company and a number of subsidiaries of United States companies have all operated from here.) But quite apart from our arguments of plain self-interest we cannot ignore that if a settlement is too seriously to our disadvantage it will not be acceptable to Parliament and public opinion here. We made so many concessions to the American point of view during the consortium negotiations that we are now almost down to the hard core of points on which we cannot give way. We believe that we made this clear to the United States Embassy, to Hoover and to the United States companies here, and do not think that any of them could in good faith recommend that the United States Government should press us to make further substantial concessions in negotiations with the Persians.

5. We shall be grateful if you will maintain pressure on the State Department on these three points and leave them in no doubt that they cannot be treated as bargaining counters. In discussing the registration of the companies you can add an entirely practical argument which should appeal to all members of the consortium. This is that the companies must be registered in a country of which the Government will be capable of lending effective diplomatic support to them in any disputes with the Persian Government. Our own experience over the past three years proves this beyond doubt, since the Persian Government contested our right to intervene even on behalf of a private British company and would all the more certainly reject British and American representations on behalf of a company which was not British or American registered. We do not suppose that the Americans would suggest United States registration for the group service companies (for both financial and political reasons we should think this out of the question); and this leaves us with the conviction that on practical grounds alone the companies must be registered in the United Kingdom.

6. We have considered another method of securing effective diplomatic support for the companies, namely that an inter-governmental treaty should be concluded with the Persian Government to support and guarantee any contract concluded with the consortium. We have discussed this with the United States Embassy here, who have reported unfavourable reactions from the State Department. We may revert to the subject later; but if meanwhile the State Department take the line that an inter-governmental treaty to support the consortium's contract is unnecessary or undesirable, it makes it all the more essential that the companies should be registered in a country capable of something like effective diplomatic action.

7. I am copying this letter to Denis Wright at Tehran and to the Paris and The Hague Chanceries.

Yours ever,

L. A. C. FRY.

SECRET

EP 1534/87

No. 38

CONVERSATION BETWEEN SIR ROGER STEVENS AND THE
SHAH OF PERSIA ON APRIL 22, 1954

(1)

Sir Roger Stevens to Mr. Eden. (Received April 30)

Tehran,

April 24, 1954.

(No. 18. Saving. Secret)

I saw the Shah, at my request, at 5.30 p.m. on April 22 for well over an hour. I said that some time had elapsed, and there had been various developments in Anglo-Iranian relations since my last visit. He at once remarked that he had heard a report that the United States companies were dissatisfied with progress and might withdraw altogether if they did not get their own way. I replied that I had heard similar reports and had made a careful check which led me to believe the reports were exaggerated. They might appear a little impatient but were determined to explore the whole position thoroughly before reaching any hasty decision. We then talked at length about the tax route, the pricing of oil and the nationalisation law. He repeated many times that the settlement must conform to the nationalisation law, said that if it did it would not require Majlis ratification (only permission to sell more than 1 million tons of oil) whereas if it did not it would need it and not get it. He played on the Communist bogey for some time in terms with which I could not but agree. I said, however, that we had always recognised that a durable settlement must be within the framework of the nationalisation law, and this one must clearly do so. A way must be found of reconciling the companies position and that of the Iranian Government. The alternatives were too horrible to contemplate. On the other hand there were bound to be some features of the settlement which were unpalatable and fell short of the ideal from an Iranian point of view. It seemed to me that the Government should make it its objective to convince the public and Parliament that the settlement was the best they could get, that it would have been impossible to get agreement on any other terms, and that it would bring great benefits to Iran whereas a failure to settle would mean disaster.

2. At the end of our conversation, the Shah reverted again to the attitude of the United States companies and enquired what would happen if they did withdraw. I said that such a possibility had not been contemplated, much less discussed. It would be a most unsatisfactory position and the other companies would be unable to sell the proceeds of Persian production. Any suggestion that Her Majesty's Government or A.I.O.C. were not 100 per cent. behind the consortium solution was false. It was now the only practicable arrangement. Shah said he quite realised the other companies could not take so much oil but perhaps Iran herself could dispose of some of the remainder. Could not Italy, Germany or Japan be brought into the consortium? I said they were not producers and could not help to make room for Persian oil by cutting back elsewhere. Any arrangement which enabled Iran to find a guaranteed outlet for only part of her oil would be most unsatisfactory. I assured him that Her Majesty's Government and I personally to the best of my ability, would make every effort to bring about a better and more lasting solution than that.

3. After this conversation I went to see the United States Ambassador to warn him of what had passed. He told me he had seen Mr. Ala, Minister of Court, that morning and no doubt what the Shah had heard about the attitude of the United States companies was derived from that conversation, though it had got exaggerated in the process. He was glad to know what I had said to the Shah and would take the same line when he saw him on Sunday, April 25.

EP 1534/87

(2)

Mr. Allen to Sir Roger Stevens (Tehran)

(Secret)

Dear Sir Roger,

Foreign Office,

May 1, 1954.

Your telegram No. 18 Saving of April 24 reporting your conversation with the Shah has naturally been of great interest to us. It seems particularly significant

SECRET

51653

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when compared with Henderson's accounts of his interviews with the Shah and Hussain Ala.

2. We are not certain how much Henderson told you of his interview with Ala. But the United States Embassy here have shown us almost the whole of his telegram although as I have said elsewhere, it would be better if you did not mention this. Ala attacked every single part of the consortium's proposals with great vehemence, but, as we would expect when he was talking with an American, he laid particular emphasis on the impossibility of giving British nationality to the group service companies. He also repeatedly warned Henderson that the A.I.O.C. with "the British-controlled" Shell group and the "A.I.O.C.-dominated" Compagnie Francaise des Pétroles would dominate the consortium and would certainly push out the American companies as soon as they could.

3. This last warning is perhaps the key to the matter. On the morning of April 22, Ala is trying to persuade Henderson that we intend to kick out the American companies; and in the afternoon the Shah is giving you what seems to be the clearest hint that we could make some arrangement without the American companies. This looks like a classic example of the invariable Persian tactics of trying to drive a wedge between us and the Americans, the more to be regretted because the Shah's attitude may be of critical importance. We may hope that your answer to the Shah disabused him of the idea that a wedge can be driven, but the Persians being what they are we cannot be confident. If he or anyone else makes the same suggestion again we would suggest the short answer that if the Americans should withdraw it could only be because the Persians were refusing to accept reasonable arrangements and we do not expect the other companies to have any more interest than the Americans in unreasonable arrangements.

4. I might add that we have tried to puzzle out what (if our guess is right) the Shah and Ala were hoping to gain by a split between the Americans and us in this affair; and we can find no precise answer. Whatever emphasis the Shah and others may lay on the Nationalisation Laws, a genuinely multi-national solution seems almost as important to Persian presentation: British preponderance in any consortium would hardly do. Perhaps, however, there is no need to look further for a reason than the irresistible attraction that such wedge-driving holds for all Persians. The old advice may be applicable: never mind so much what the other chap has in mind; make certain that he knows what you have.

Yours sincerely,

M. BUCKMASTER.

(for R. ALLEN.)

EP 1534/83

No. 39

REVIEW OF THE PROGRESS TO DATE OF THE NEGOTIATIONS

Sir Roger Stevens to Sir Harold Caccia. (Received April 27)

(No. 15327/5/54. Personal and Secret)

My dear Harold,

Tehran,

Tehran,

This week there is not a great deal to tell you beyond what is already in the telegrams. Indeed, I am afraid that with telegrams to Fraser and Hopwood as well as our own regular reports you may be getting overloaded. I assume, however, that you like to have telegraphic accounts of each principal meeting for the record, and having offered A.I.O.C. a daily ration of one telegram (which they have not so far taken up) I feel that we must do the same for Shell.

2. The prevailing impression is that since the Persians recovered from their initial shock the conversations have gone reasonably well and the speed at which each side has got down to business seems to be highly commendable. Now that the Persians have realised the reasons for the organisational structure, the tax route, &c., they appear to be making a genuine effort to see what can be done to meet a concept which, from their political point of view, is clearly very difficult to swallow. I do not so much mean any necessary alteration in fiscal legislation—this may not prove too difficult—as the whole idea of receiving revenue in the form

SECRET

of tax on a profit sharing basis rather than by selling their oil. Personally, I think that this issue rather than management in the narrower sense is likely to prove the most crucial one and some of the Consortium negotiators, particularly Loudon, have been talking about the possibility that they might, within the next ten days, have to return briefly for consultations with their principals. If they did so, they would arrange that technical discussions should continue here during their absence and they might even meet at some point on the way, e.g., Rome. I have not gathered yet how much, if any, give in their attitude all this may portend; officially, at least, we are always told that any departure from the basic structure of the profit sharing arrangement would be a breaking point.

3. The two matters of particular concern to Her Majesty's Government which have come up during the past week are sterling payments and British companies. In connection with the first, I should explain what has been happening about the Note from the Ministry for Foreign Affairs referred to in my telegram No. 332, since our uncommunicativeness on this may have puzzled you. This Note was the most curious document with a long-winded and distinctly confused paragraph about compensation and a short and very snappy one about sterling. We came to the conclusion that there was nothing in the compensation paragraph which need hold up discussions or to which any objections we felt could not be voiced in my opening remarks—which they were, as you will see when you compare the paragraph of the Note (copy enclosed) with the text of my opening statement. The refusal to accept sterling, however, seemed to us much more serious. After a word with Henderson who entirely shared my point of view I went to see M. Entezam and told him that the question of sterling payments (as opposed to the use of sterling earned) was a matter for the Consortium. As they had not yet discussed the question properly with the Consortium their flat statement that sterling would be unacceptable appeared premature. This was a subject on which I could assure him the Consortium was absolutely firm and I thought that after they had talked the matter over they might find the terms of the Note, if on the record, a positive embarrassment. I therefore suggested that he might like to take it back or hold it in suspense until the matter had been gone into further.

4. Entezam took all this in good part and said that he would have to talk to the Minister of Finance, Dr. Amini. He admitted that an earlier draft of the Note had been couched in more moderate language and that the wording had been tightened up in the Ministry of Finance without his realising it. We also subsequently discovered that the managing director of the Bank Melli had never been consulted about it. I have since heard, unofficially, from several quarters that the last paragraph of the Note is being rewritten. We will, of course, send you the revised text as soon as we are in a position to do so.

5. As regards British companies, I have nothing particular to add to recent telegrams. It is clearly going to be a difficult subject and I should like to have some indication from you some time, how much importance is likely to be attached to it politically in London. As you will realise I have not had any specific instructions bearing on the subject, though the Minutes of the Working Party held on January 23 indicated views at that level and the advice of Angus Beckett and David Serpell has, as usual, been most invaluable. I fully appreciate the economic arguments for British registration and for the rest have consistently maintained with other members of the Consortium that this is one of the few remaining shreds of the Union Jack which will help Ministers to defend what will inevitably be an unpopular settlement in the House of Commons. But any indications you can give me of how minds are running on this subject, or would run if they were focussed upon it, would be most helpful. Which is likely to be judged the more important, this or compensation?

6. As to the general scene there are too many people floating around and no one quite knows who is saying what to whom. The various gradations of American: United States Ambassador, Hoover, Harden, Rieber, make the position particularly ambiguous. Unfortunately, Harden and Loudon have removed themselves from Tehran and gone to live at an hotel seven miles away at the foot of the mountains. Hoover has followed them there and we have been trying to arrange ever since for Snow and Beckett to get rooms at the same hotel so that they can sit on the tail of the others. So far we have met with complete obstruction,

SECRET

51653

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but we hope for better things in a few days. This little bit of local colour may give you some idea of the difficulties under which we operate.

Yours ever,

ROGER STEVENS.

Enclosure

Copy of Note dated April 15, 1954, from Iranian Ministry of Foreign Affairs

Your Excellency,

Further to my letter No. 381 of 14th April the Imperial Iranian Government has now given full consideration to the contents of your letter of April 9, and hereby conveys to your Excellency its views concerning the various points covered with the request that you kindly communicate them to Her Britannic Majesty's Government.

The representatives of the Consortium having now arrived in Tehran, the Iranian Government is ready to enter into discussions with them in a spirit of the utmost goodwill. We hope that these discussions, which will be conducted on the basis of complete understanding, will lead within a short time to a mutually satisfactory result.

With regard to your suggestion that two specific matters should be withheld from discussion with the representatives of the Consortium and dealt with between our two Governments, my Government's views are as outlined below:—

On the subject of compensation and counter-claims the Iranian Government is willing that this matter should be separately discussed, and since the parties to this dispute are the Iranian Government and the former company, direct negotiation on this subject should take place between the said two parties. Her Britannic Majesty's Government may of course enter these discussions as representing that company. With regard to the procedure to be adopted, considering that the Iranian Government agrees to the principle of settlement of compensation and counter-claims it is felt that the several possible alternatives which exist as you point out, should be examined and whichever is deemed to be the most practical and the most conducive to a speedy settlement, should be chosen from among them. As regards the method which you suggest as being the most convenient, and in connection with which you refer to a claim by the former oil company for compensation in respect of the period between the nationalisation of the oil industry and the final agreement, the Iranian Government feels that this is one of the alternative courses which could be studied, with of course due regard to Iran's claims including that for damages resulting from the economic blockade which precluded the sale of oil by Iran after the nationalisation of the industry, with a view to determining whether or not it has an advantage over other alternatives. This statement cannot of course be interpreted as an implicit acceptance of the purport of the specific alternative mentioned in your Excellency's letter. The basic principle in the light of which the ultimate choice of procedure should be made is that the assets of the former company should be evaluated, the claims of the Iranian Government should be determined, and the facilities should be accorded for the liquidation of such sums as may ultimately be found to be due by one party or the other.

With regard to the second matter which you suggest should be dealt with directly between the two Governments, namely, Iran's use of sterling, and a proposal contemplated by the Consortium to the effect that sums payable to Iran should be paid in sterling, in the view of the Iranian Government a proposal to this effect would be unacceptable. In the event that in the course of discussions with the Consortium representatives, such a proposal is made, the Iranian Government's views in connection with it will be expressed on that occasion.

I avail myself, &c.

Mr. Allen to Sir Roger Stevens

EP 1534/83

(Secret and Personal)

Dear Roger,

In Harold Caccia's absence I am replying to your Personal and Secret letter No. 15327/3/54 of April 21, which contained some of your preliminary impressions of the way in which negotiations were going.

SECRET

2. First, however, we have to congratulate you and your team on very satisfactory progress towards a payments agreement. Apart from your own efforts we have presumably to thank the sensible and practical, as distinct from political, approach of the Bank Melli. Our own impression was that the Persians were in fact reconciled to accepting sterling as the currency of the Consortium, and that their categorical objection to it was a bargaining manoeuvre designed to improve their position for the real argument on the extent to which we would give them convertibility. But whatever the explanation, it is very encouraging to have out of the way a point on which we might have had considerable difficulty and little, if any, support from the other parties to the Consortium.

3. On the debit side we now have the intervention of the Shah in the most unhelpful sense. The United States Embassy have shown us Henderson's accounts of his conversations both with the Shah and with Ala (please do not mention this, since the Embassy were apparently not supposed to). Reported *in extenso*, the conversations seem even worse than was indicated in your summary. We do not, of course, believe all that the Shah says. We realise that his pathological fear of the extreme nationalists and his constant tendency to compromise with them may well make him much more obstinate on the main issues than his own Government. But we cannot help wondering whether he is not putting the maximum pressure upon the Americans with, among other things, the object, which he seems always to have in mind, of extracting some more military assistance from them. On the other hand, we see very clearly the point which both you and Henderson have made in slightly different terms, that it will at best be extremely difficult for the Government to get the Majlis to ratify a settlement if there is any doubt whether the Shah approves it. We must certainly take his intervention seriously.

4. The current telegrams will have given you our views on British nationality for the companies; but on this I shall have one point to add later.

5. I can best explain our own general impressions and policy as follows. We have very little doubt that this is our last chance of getting a Persian settlement. This is not so much for the reason usually advanced that if we do not get a settlement Persia will collapse into chaos and Communism. We have heard this often enough before. It may be true this time, though I am sure you will be the first to agree that Persian political developments are unpredictable. But we are as certain as we can be that if we do not reach a settlement now we shall soon find the Persians managing their own oil industry, not of course with complete success, but with enough to put out of the question any idea of our recapturing it. As you will have seen from the telegrams to and from Rome, our blockade of Persian oil is now on its last legs. There are many interests, other than the Italians, which would soon be in the field. There is no doubt whatever that the Persians can themselves produce crude oil, and we estimate that, failing a settlement, we should quickly find them exporting, entirely on their own account, something between 5 and 6 million tons a year. That we think would be sufficient to put the Persian industry as far out of our reach as the Mexican oil industry now is, and indeed it might have a worse effect on our other Middle Eastern oil interests than even a relatively unsatisfactory oil agreement. In our view, therefore, it will now have to be a very bad settlement before it is worse than no settlement. I cannot, of course, say whether such an argument would convince Ministers; but it is at least a stronger one than the debatable contention that we must reach a settlement to prevent a Persian collapse.

6. But even if it became Her Majesty's Government's policy that, an agreement must at whatever cost be reached, we do not think that we have yet reached the time for any concessions, and certainly not for concessions on the purely British interests of compensation and British nationality. The Persians' first positions were clearly far removed from their final breaking points. They want a settlement; and we have nothing to lose at this stage by obstinacy. We have no doubt, therefore, that we can safely adopt what are after all only perfectly normal negotiating tactics of refusing to make piecemeal concessions, and indeed of making concessions only when we are quite certain that they are necessary and when we can see precisely what we shall get by making them. If any have to be made at all the first must obviously come on the questions of management and the method of payment to the Persians. (We assume that the Persians are in fact ready to accept a fifty-fifty division of profits and that it is the method and not the result which is in dispute.) The first object of the negotiations is to discover whether the Persians

SECRET

and the Consortium can agree to arrangements for the future operation of the industry and the crux of this question, management and financial arrangements, must inevitably be pursued first. The compensation negotiations will in any case proceed separately, and if arguments on the nationality of the companies should reach complete deadlock we can always reserve our position on it and leave it for settlement in the final haggle. Any concession on the nationality issue would, in any case, be a matter for Cabinet decision here.

7. I hope that this answers your question whether nationality of the companies or compensation is the more important to us. We should not wish to decide this for the present. Apart from the general reasons of policy and tactics which I have given above, we think that it will be much easier to take such a decision, if we must, in the final stages. If we had an answer to the question: "Just how much more compensation will we get if we concede British nationality?" We might find the decision relatively simple.

Yours ever,

R. ALLEN.

EP 1534/99

No. 40

NEGOTIATORS CONSULT WITH THEIR PRINCIPALS

(1)

Mr. Eden to Sir Roger Stevens (Tehran)

(No. 463. Secret)
(Telegraphic)

Foreign Office,
May 11, 1954.

Your telegram No. 435 [May 4: Persian Oil].

We understand from Shell that the negotiators are planning to leave Tehran about May 20 for consultation with their principals. If they do, we hope they will come to London so that we may have an opportunity to discuss their proposals for the next move, and that these meanwhile will be kept as flexible as possible.

2. We hope also that in the meantime the negotiators will maintain firmly the present demand that the nationality of the Group Service Companies should be British.

3. We have been considering, however, whether there is any alternative arrangement which might meet our requirements. The Ministers concerned have approved that you should have discretion:—

- (a) to discuss with the Consortium negotiators, for their own information only, the ideas in my immediately following telegram; and
- (b) if the negotiators accept this alternative to put it to the Persians at such time as you think it would have the best effect on your negotiations on compensation.

EP 1534/99

(2)

Mr. Eden to Sir Roger Stevens (Tehran)

(No. 464. Secret)
(Telegraphic)

Foreign Office,
May 11, 1954.

My immediately preceding telegram.

We have been insisting on United Kingdom nationality for the Group Service Companies for reasons of (a) prestige and (b) exchange control.

2. The only alternative that seems to offer hope of satisfying both the Persians and ourselves, and we should hope of being accepted by all the Companies, is that the Consortium should set up a British Company in the United Kingdom which in turn would set up subsidiaries, with Persian nationality, to handle the operations in Persia.

SECRET

3. The advantages of this would be:—

- (i) The consortium Company, having United Kingdom nationality, would meet our requirement of prestige and strengthen further the position of London as the centre of the international oil industry;
- (ii) The operating subsidiaries, having Persian nationality, could be held up by the Persian Government as satisfying Persian national aspirations;
- (iii) Whatever accommodation is arranged with the Persians over control, the expenditure of the operating subsidiaries will in the final analysis be a consortium affair and would naturally be subject to the control of the proposed consortium Company in the United Kingdom. In this way we should be able to get a sufficient measure of control over the dollar expenditure of the operating subsidiaries.
- (iv) If the operating subsidiaries had Persian nationality, with no layer of other nationality above it, the Iraqis and others might well demand that in their cases also the Companies operating their oil industries should have their nationalities. The proposed alternative would therefore give away as little as possible to national sentiment elsewhere.
- (v) It might also improve chances of a settlement that would last. An operating Company of non-Persian nationality might well be challenged sooner or later.

4. It would be easier for us to claim a right of diplomatic protection in respect of injury done by the Persian Government to British interests in a Persian Company than in respect of a Company incorporated in some third country such as Switzerland. The right of protection could be secured by inclusion in the Agreement between the Persian Government and the United Kingdom Company or the members of the consortium of specific undertakings by the Persian Government regarding the treatment to be accorded by it to the Persian Company and possibly also of an undertaking by the Persian Government to indemnify the United Kingdom Company or the consortium members against any injury caused to them directly or indirectly through any failure by the Persian Government in its duties or obligations towards the Persian Company. If the consortium formed a British company to manage its affairs, it might moreover be easier to propose an "umbrella treaty" between Her Majesty's Government and the Persian Government under which the latter would guarantee to keep its contract with the consortium.

5. This has all been discussed with A.I.O.C. and Shell. They do not wish to commit themselves until they have had an opportunity to discuss with their negotiators in Tehran and with the American companies. On the strength of reports from London, Shell is convinced that there is no hope of obtaining entirely British nationality and also doubt whether the consortium could obtain effective control if the operating Companies were Persian. A.I.O.C. seem to think that, if we cannot get United Kingdom nationality, Persian would be no worse than that of any third country. But A.I.O.C. do not think that any concession on nationality should be made before agreement is reached on compensation. Both Companies agree, however, that the idea should be examined.

EP 1534/120

(3)

Sir Roger Stevens to Mr. Eden. (Received May 15)

(No. 495. En Clair)
(Telegraphic)

Tehran,
May 15, 1954.

My telegram No. 490: Oil Negotiations.

Following communiqué was issued after tonight's meeting (May 15).

After five weeks of negotiations between the Government of Persia and the Consortium, during which there has been a cordial and frank exchange of views, the three negotiators of the Consortium and some of their advisers are going to consult with the principals of the companies constituting the Consortium, who are foregathering in London for that purpose. Other members of the Consortium party will remain in Persia. As is to be expected in matters of such importance,

SECRET

certain questions have arisen during the course of the negotiations, which make such consultations necessary. The three Consortium negotiators intend to return to Persia after the meetings in London and to advise the Government of Persia as to the views of the Consortium on the questions which have arisen. It is hoped that discussions between the Government of Persia and the Consortium may then be resumed in the same spirit of mutual good will that has so far prevailed. The Consortium representatives have also expressed their sincere appreciation of the very warm and friendly welcome and of the many kindnesses which have been shown them in Persia.

EP 1534/134

No. 41

PRINCIPAL POINTS UNRESOLVED BETWEEN CONSORTIUM DELEGATION AND PERSIAN GOVERNMENT

Sir Roger Stevens to Mr. Eden. (Received May 20)

(No. 26 S. Confidential)

Tehran,
May 19, 1954.

Following is brief summary of principal points which are unresolved between Consortium delegation and Persian Government together with my comments upon each.

(1) *Operation on agency basis or as principals.*—We are satisfied that Persian Government will never accept the latter. Whole future of negotiations therefore turns on companies' acceptance of former with proper control by companies over operations on which agreement in principle appears to have been reached (my telegram No. 514). I understand that at a meeting to be held in State Department before United States principals set out for London they will be told that there is in the view of United States Government no possibility of reaching agreement on basis of operating on their own account. To judge from their attitudes here I do not imagine that A.I.O.C. will raise difficulties and I have the impression that Shell are fairly reconciled. The risk exists, however, that since operation as agents involves uncertainty, the question of consideration may be reopened.

(2) *Whether the principals in an agency arrangement shall be N.I.O.C. or the Iranian Government.* The Consortium representatives here believe that it will be possible to find some compromise and they do not appear to regard it as a sticky point since the Government will be clearly behind the whole arrangement. I hope that they will return with instructions which enable them to be flexible.

(3) *Number of Iranian nationals on board.*—Discussions have so far been on a basis that the board will consist of seven persons of whom two will be Iranian Government nominees with full rights. The Persians have at various times sought a majority of Iranians; this has been rejected. If this point is not to cause serious difficulty I believe that it would be desirable for the Consortium to return if possible with authority to undertake to appoint one Iranian of their own choosing from among their five nominees, with some safeguard regarding quorum requirements designed to avoid Iranian majority at any time.

(4) *Nationality of Group Service Companies.*—There is nothing to add to my telegram No. 500 at the moment.

(5) *Volume of production and proportion of Iranian to total Middle East production.*—So far the Consortium representatives have undertaken to guarantee 10 million tons in the first year, 20 in the second and 25 in the third. They have also stated that the industry in Iran would thereafter be in a position to compete for its fair share in the increase in demand for Middle East crude oil on a royalty cost basis. I understand, confidentially, that United States Ambassador has recommended that companies should be pressed to agree to increasing foregoing figures to 12, 22½ and 30 respectively. My impression is that this would satisfy the Persians and would help to abate demand for oil for separate disposal for themselves. It would perhaps suffice if figures suggested by Henderson were given as targets rather than firm undertakings; but in my view some concession here will be useful. As regards undertakings relating to period after third year I would hope that it might be possible for the Consortium to give some assurance based simply on the facts of the Middle East oil situation to the effect that Iran will be treated equitably and

SECRET

that there will be no differentiation between Iran and other Middle East sources of supply under this head.

(6) *Royalty oil.*—The Consortium has offered 8 per cent. of crude production; the Persians are demanding 15 per cent. The Consortium is offering the oil at posted price; the Persians maintain with reason that they are not interested in any royalty oil at this price. I fear that this will be a very difficult issue since the Persians are determined to have some royalty oil at a price at which they can dispose of it profitably, while the Consortium is naturally unwilling to create a precedent by letting them have oil below the posted price or in greater quantities than elsewhere.

(7) *Price.*—The Persians are still objecting to the division of profits being based on posted price less 10 per cent. They have, however, admitted frankly that they are holding out on this point for bargaining purposes. They would probably agree in the final stages if given an assurance that the benefits of any better arrangements concluded with other Middle Eastern countries (e.g., Saudi Arabia) would be extended to them. The Consortium have already said that they would consider in such an eventuality the possibility of introducing modifications but it may be necessary to be more specific and I think they should if possible be empowered to give a firm undertaking if necessary.

(8) *Refinery fees.*—The Persians are still questioning the 3s. 6d. refining fee of which they would receive 50 per cent. The Consortium have produced figures to show that this gives the Government a bigger income per ton than any other refinery in the Middle East. They have indicated that there might be some increase in the fee.

(9) *Valuation of Southern installations.*—The Persians are objecting to the writing up to current (or as they say inflationary) values of these installations other than the refinery. I understand that if the same basis were followed as in Iraq to which the Persians frequently refer, and all new expenditure undertaken in the last 10 years were included, the gross figures now in dispute would be reduced by some £3 millions. This might provide a possible solution.

(10) *Fee on internal consumption oil.*—Persians are claiming refined oil at cost. Consortium insist on normal refining fee. This is a point of political importance for Persian Government who are subject to periodical attacks regarding internal price. In view of practice in Venezuela, danger of precedent already exists and I would hope Consortium would be empowered to make concession. United States companies are likely to prove the most difficult.

(11) *Length of contract.*—Persians have proposed 20 years but have indicated readiness to consider longer period if agreement is generally satisfactory. Consortium have asked for 50 years. Range of compromise is circumscribed by fact that (a) Persians will probably refuse to go beyond 1933 concession period, viz., 39 years; (b) Americans are insistent on minimum of 40, having regard to length of concessions elsewhere. Authority to go down to say 37 would be highly desirable.

EP 1534/147

No. 42

OIL NEGOTIATIONS

CONVERSATION BETWEEN THE PERSIAN AMBASSADOR IN LONDON AND Mr. EDEN IN GENEVA ON MAY 29, 1954

(1)

Mr. Eden to Foreign Office. (Received May 29)

(No. 504. Secret)
(Telegraphic)

UKDEL to Geneva Conference,
May 29, 1954.

On the instructions of his Government, the Persian Ambassador in London came to see me in Geneva to-day about the oil negotiations.

2. He gave me a copy of the Persian note of the discussions with the Consortium in Tehran and said that, for the Persians, the most important unsettled issue was the nationality of the operating companies. Both from the point of view of the

SECRET

nationalisation law and of Persian public opinion, it was highly desirable that these companies should have Persian nationality. I said that the Persian Government were not the only Government which had to consider public opinion and that, in view of past history, these companies should in justice have British nationality. The Ambassador said that, however this might be any agreement which did not provide for Persian nationality was unlikely to be accepted by the Persian Government. Nor even if it were accepted, would it be likely to stick. He had heard the suggestion that the nationality of a third country might be proposed. He considered that the reaction of the Persian Government would be: "If not British, why not Persian?"

3. I said that I would take note of his views and trusted that the Persian Government would equally take account of mine. But the Persian Government must realise that this was not a question which affected Her Majesty's Government and the British member of the proposed Consortium alone. According to our information, the other members felt as strongly, if not more so.

4. The Ambassador went on to say that the question of next importance for Persia was production. The figures proposed by the Consortium for the next three years were not too bad for refined products. But the proposals for crude were inadequate and the Persian Government hoped that within say four years Persia would secure the same proportion of the total of Middle East production as in 1950. I commented that it might be difficult to negotiate on such a basis and that it was probably more realistic to talk in specific figures. This was a matter for the companies and, while I would be ready to encourage them to be as forthcoming as they could, I could not order them to divert production to Persia.

5. The Ambassador then raised the question of the Board of Directors and most-favoured-nation treatment. I spoke on the lines of the departmental brief of May 27.

6. The Ambassador also drew my attention to the strong disagreement of the Persian Government with the Consortium's contention that there should be a 10 per cent. reduction from the posted price (see last sentence of paragraph 3 of Persian Note). But he did not develop this point.

7. He asked what were our views on the duration of any agreement. I said 40 years. He replied that the Persian Government had proposed 20 years, but that perhaps a figure in between 40 and 20 years could be reached. I remarked that if the Persian Government could not accept 40 years exactly, I hoped that the figure would be much nearer 40 than 20.

Please see my immediately following telegram.

EP 1534/148

(2)

Mr. Eden to Foreign Office. (Received May 29)

(No. 505. Secret)
(Telegraphic)

*UKDEL to Geneva Conference,
May 29, 1954.*

My immediately preceding telegram: Persian Oil.

When the Persian Ambassador had finished, I said that I must raise the question of compensation and I emphasised the importance of the Persian Government settling this issue in a reasonable way.

2. The Ambassador said that he agreed that the question must be settled once and for all. He wished to advance what he said was a purely personal idea. He knew that the Persians had a lot of counter-claims. He was not appraised of the details and suffice it to say that Kashani had said that the result should be for the Persians to receive a net payment of £900,000,000. Would not the easiest way be for the slate to be cleaned by balancing claim against counter-claim?

3. I said that this would not do. The Persian Government should, in their own interest, be seen by the world at large to behave fairly over compensation. In order to help them we had been ready to avoid reference to future profits. The

SECRET

Ambassador acknowledged this. But we could not admit that counter-claims washed out our remaining justifiable claims. There was also the sum that would be due for the assets which the Consortium would not take over (Nafti-Shah, &c.).

4. I realised the Persian Government's difficulties with its own public opinion. But we were not asking for a single large down-payment. We were prepared to accept payment over, say, 20 years which should not strain Persian economy when once oil was flowing.

5. The Persian Ambassador asked what sum I had in mind. I said that I knew that we had considered £300,000,000 a reasonable net figure. As a demonstration of goodwill, I understood that our Ambassador in Tehran had, on his own authority, said that we might be prepared to accept even a half of this sum. We were waiting for a Persian reaction.

6. The Ambassador asked what I would think of the appointment of a single neutral arbitrator to settle the issue, for instance, a Belgian. I said that I was not against arbitration as such. On the contrary. But we believed that undesirable polemics might be avoided if we could settle the issue out of court between ourselves. Should this unfortunately prove impossible, I would not shut my mind to the Ambassador's suggestion, which I assumed would mean that both sides would in advance bind themselves to accept the result of the arbitrator's award as a final settlement. But I asked him, meanwhile, to do his best to persuade his Government to settle direct with us. Time and tempers would be saved and a new period of co-operative effort should start with hopeful prospects.

7. The Ambassador said that he agreed with my preference for a settlement out of court between ourselves, if possible, and would try to help it forward.

8. He is returning to London on Monday and hopes to see Sir W. Fraser in the near future.

EP 1534/153

No. 43

PROGRESS OF NEGOTIATIONS

Sir Roger Stevens to Mr. Eden. (Received June 1)

(No. 41. Confidential)

Tehran,

Sir,

May 29, 1954.

I have the honour to report that the departure some ten days ago of the Consortium negotiators for consultations with their principals has been received with apparent calm here. The Persian Government were well aware from the negotiations themselves of the need for such consultation and have taken pains to allay suspicion of a deadlock. They have emphasised the mutual desire for a settlement and the friendly nature of the talks and the necessity for the Consortium negotiators, not being plenipotentiaries, to refer back. They have made no secret of the fact that control of the industry is the main problem; have discreetly given themselves credit for resisting proposals which might run counter to the Nationalisation Law in this and other respects; and have hinted that they expect the negotiators to return with modified instructions.

2. At the same time the Government are being careful to leave themselves room for manoeuvre. The Consortium had advised them against giving the Majles a detailed account of proceedings for fear that this would have a hardening effect on opinion, and they seem to have agreed with this advice. Official communiqués have been uninformative on matters of substance and General Zahedi and Dr. Amini, the Minister of Finance, when recently addressing closed sessions of the Senate and the Majles on the progress of the negotiations, gave only broad indications of the points at issue whilst stressing the Government's defence of national aspirations.

3. On the surface the atmosphere in Tehran is one of comparative confidence. The main issues though often misreported in detail, are now well known. The Government have stepped up their "educative" efforts and admirable articles on the realities of the international oil business are appearing in the newspaper *Ettela'at*, which went out of its way in one of them to include a complimentary

SECRET

reference to this Embassy. Some newspapers continue to prophesy failure, and there have again been uneasy references to the possibility of the Government's seeking to modify or to "interpret" the Nationalisation Law. Most newspapers, however, are still optimistic. Some are over-optimistic taking it for granted, *inter alia*, that the consortium negotiators should not have a difficult task in persuading their principals that the Nationalisation Law is sacrosanct, and that ultimate Persian control of the industry will be conceded. (Pained surprise is sometimes expressed that the negotiators were "inadequately briefed" on the Law before they came out.)

4. Under the surface, however, there is considerable uneasiness. Much of this is not directly connected with the oil question. The politicians and the people are forgetting that General Zahedi rescued the country from chaos nine months ago and are growing increasingly impatient with the Government for having done little or nothing positive during its tenure of office in spite of generous assistance from the United States and the relative political calm of the last six months. The rising cost of living and the incessant stories of Government corruption, which contrast with the virtually unanimous opinion that Dr. Mussadiq was at least personally honest, have not helped the Government's case with the public, which is undoubtedly eager for some measure of reform. The attitude of the politicians is coloured more by personal ambitions. There are already some five or six personalities more or less lobbying for support as the next Prime Minister. So far none of them appears to be prepared to come out strongly against the Government but their manoeuvres are becoming generally known and are contributing to the unsettledness. Dr. Musaddiq's leading supporters and fellow-travellers are lying low but there is still a strong element of opinion which, whilst regretting his grosser follies, still harbours considerable sympathy for what they consider to have been his honest attempts at reform and his safeguarding of national independence. This feeling is reflected in the speeches of those Majles deputies who disassociate themselves from many of Dr. Mussadiq's actions but take pains to express their agreement with what they vaguely refer to as the aims of the "National Movement."

5. Until the Government have something positive to show for their time in office restlessness will probably increase. And it seems unlikely that the Government will have anything much to show pending an oil settlement. There is, for instance, no sign of their taking steps against corruption which, although there is little first-hand evidence, seems to be practised on a fairly large scale in some of the highest quarters of Government. As regards the oil problem itself the general mood has changed noticeably from that of three or four months ago when the Government, in spite of its lack of positive support, enjoyed a large measure of what at worst could be described as benevolent neutrality towards its efforts to find a solution. Much of this has been dissipated by the delay in starting the negotiations and the length of the negotiations themselves. Even those persons who are aware of the complexity of the issues involved are showing signs of impatience and pessimism at what they consider to be slow progress; and the political gossipers and intriguers do not help with their repeated if muted rumours of Anglo-American disagreement. One of their favourite stories which we are constantly discounting is that the British are opposed to a consortium settlement or, in some versions, to any settlement at all.

6. Growing uneasiness might well lead to a more articulate attitude of open criticism of, if not opposition to, the Government if a settlement in some form or other with the assurance of early oil revenues, is long delayed after the return of the consortium negotiators. I do not wish to give the impression that all those Persians not connected with the Government are waiting for the first favourable opportunity to attack the Government. There are a respectable number of influential Persians who have no love for the Government but who are sufficiently responsible to see the need for an oil settlement and to understand that this is probably the last chance of getting one. And the people, if the agitators continue to be kept under control, would no doubt be glad to see an end to the futilities of the last few years if a settlement is soon followed by the tangible benefits of a lowered cost of living and opportunities for employment. But a Persian Government, and particularly a Government lacking popular support, cannot expect to survive for ever on promises and hopes. The Persians have lived too long on these already to be deceived into accepting them indefinitely in place of more solid sustenance.

7. I am sending copies of this despatch to Her Majesty's Ambassadors at Washington and Baghdad, the Head of the British Middle East Office, Fayid, and to the Head of the Development Division of the British Middle East Office at Beirut.

I have, &c.

ROGER STEVENS.

EP 1534/166

No. 44

AGREEMENT REACHED ON FORMING A CONSORTIUM COMPANY

Foreign Office to UKDEL to Geneva Conference

(No. 1174. Confidential)
(Telegraphic)

*Foreign Office,
June 16, 1954.*

Your telegram No. 643: Persian Oil.

Representatives of the Consortium met the Middle East Oil Committee on June 15.

2. They said that agreement had now been reached on the following proposals, with which the negotiating team will return to Tehran.

(a) The Consortium would form a "Consortium Company" in the United Kingdom with British nationality.

(b) This Company would form subsidiary operating companies (in which it would hold all the shares) for the operations in Persia. These would have Dutch nationality. If the Persians would not agree to Dutch nationality, the negotiators had discretion to suggest a neutral, Belgium seeming to them the most suitable for legal reasons. The negotiators do not expect, however, to have to resort to this.

(c) The member-companies of the Consortium (not the Consortium Company in the United Kingdom) will also form a servicing company of United Kingdom nationality to deal with procurement and staff for the operating companies. If the Persians will not agree to this, the delegation have discretion to propose that these functions should be carried out, either by a British subsidiary of the operating companies or by a branch in the United Kingdom of those companies. The member-companies have undertaken that in any event the functions of servicing would be done in the United Kingdom.

3. On the other points hitherto not agreed with the Persians, e.g., control and volume of production, the Consortium negotiators said they were satisfied that they had been given as much latitude as could reasonably be given in view of the member-companies' other interests in the Middle East. They seemed fairly confident that their new proposals would be acceptable to the Persians.

4. It seems to us that the proposed company structure is satisfactory. We have made clear to the leader of the team, Mr. Howard Page, the importance you attach to ensuring that the operations of the Consortium outside Persia are firmly and effectively retained in London. He appears fully to accept this, and we have the impression that he can be relied upon not to abandon the points which are important to Her Majesty's Government.

5. We are in touch with the Netherlands Government in order to ensure that there are no technical difficulties (especially in regard to Exchange Control) over giving Dutch nationality to the operating companies.

6. The Consortium asked that each of the four Governments interested should try to negotiate an exchange of letters with the Persian Government to establish their right to intervene on behalf of the Consortium and to take disputes to an international tribunal. We are in touch with the United States Embassy on this and shall be consulting the other two Governments shortly. We have already prepared a draft exchange of letters between Her Majesty's Government and the Persian Government which might serve as a model.

7. The A.I.O.C. seem on the whole satisfied with the agreement they have reached with other members of the Consortium and I believe the negotiators now have a good hand to play.

EP 1534/186

No. 45

PERSIAN COMMENT ON THE OIL NEGOTIATIONS

Sir Roger Stevens to Mr. Eden. (Received June 22)

(No. 48. Confidential)

Tehran,

Sir,

June 19, 1954.

With reference to my despatch No. 41 of the 29th of May, I have the honour to submit a report on recent Persian comment on the oil question. The imminent return of the Consortium delegates and the Government's educative campaign give it particular importance.

2. In the Senate, the Minister for Foreign Affairs and Mr. Jamal Emami (Personality No. 80 of 1952) have shown considerable courage in their manner of emphasising the paramount importance of an oil settlement. Mr. Entezam said that the Government would not be deflected from their course by demagogues, while Mr. Emami went so far as to say, in effect, that settlement must be achieved at all costs, and to describe Dr. Musaddiq's nationalisation of the industry as a betrayal; typically, he attributed this betrayal in part to the machinations of Soviet and British hirelings. The latter touch was lacking when Mr. Emami gave a member of my staff the day before what turned out to be in effect a rehearsal of his speech.

3. Mr. Emami was bitterly attacked at the next session a few days later by Mr. Reza Divan-baigi (Personality No. 43 of 1952) who maintained that the events of the past three years were the natural reaction of an oppressed people and that Persia, having managed without oil for three thousand years, could do so again if needs must. Mr. Emami was not intimidated, and seems to have had the best of the argument in the Senate. Elsewhere he has been attacked by a section of the Press and a number of deputies, but he has received a surprising measure of support, much of it admittedly from newspapers friendly to the Government.

4. Though some Nationalist deputies have continued to sound off in the Majles most of the deputies are still behaving fairly responsibly and the Presidents of both Senate and Majles have told me this week that they regard the situation as fully in hand. The Minister of Finance has told the Majles that it is no use their criticising his budget since nobody could do better without an oil settlement. He carried the House with him, and he told me afterwards, perhaps over-confidently, that any Minister who speaks with sufficient vehemence can silence demagogues.

5. There have been many reports in the Press in the past week that the Shah, the Government and Parliament are now united in their determination to achieve an oil settlement. Unfortunately, at the same time, responsibility for Mr. Divan-baigi's attack on Mr. Emami is being attributed by a number of people in Tehran to the influence of the Shah, who nominated him to the Senate. Their suspicions may not be without foundation. Thus, while the Shah seems prepared to give the Government a measure of support, he may well be keeping open a possible line of retreat, and engaging in his usual tactics of playing both ends against the middle.

6. Recent Press comment has contained much that is admirable, and clearly Government-inspired, on the facts of international oil. Speculation has been nearer the mark than usual. For example, some newspapers have not always blamed the Anglo-Iranian Oil Company (A.I.O.C.) alone for the delay in reaching settlement and have taken the American companies to task for insisting on control of management of production by the Consortium. There has been a flattering reference to the part which you, Sir, and the United States Administration have played in the negotiations, though your anxiety for a settlement was attributed to self-interest in that you are said to realise that, without a settlement, Persia would soon be able to sell huge quantities of oil directly to Italy, Japan and Germany, thereby undermining the present system of world marketing.

7. Recent comment on control of management, compensation and the A.I.C. gives cause for disquiet. As regards management and its attendant problems such as the nationality of the operating companies, comment is hopelessly confused. Nevertheless it is clear that many people here are expecting, or at any rate "inviting" proposals far removed from those which the Consortium will bring.

SECRET

8. As regards compensation, the A.I.O.C.'s claim has more than once recently been quoted as £100 millions. (We have been careful to avoid any mention of this figure here, and it is not clear how the figure has been obtained.) Persian counter-claims are said to cancel out or even to exceed this figure, and it is being affirmed that the Persians will never agree to compensation for losses directly incurred as a result of nationalisation. Dr. Amini is quoted as putting Persian counter-claims at £150 millions. He has denied to me giving any Press interviews on compensation, let alone mentioning any figures, but I have little doubt that the Press are being given some undesirable official guidance on this subject. One newspaper concludes from the absence of a Treasury representative among the returning negotiators that compensation will not be discussed until the future operation of the industry has been decided. I am taking steps to correct this misapprehension.

9. Members of the A.I.O.C. delegation at present in Tehran are disturbed by the extent of criticism of the company, most of which takes the form of a pseudo-historical accompaniment to the theme of compensation. Furthermore, the Head of Tehran Radio has warned my Press Attaché that broadcasts in the Government's educative campaign will "inevitably contain some unfriendly references to the company for internal consumption," though the Minister of Finance has told me that tendentious references will be avoided. (We are investigating what has actually been broadcast.) It is a very natural source of concern to the company that they should continue to figure as principal whipping boy in spite of the major contribution which they are making towards a settlement and I shall do what I can to persuade the Government to exercise restraint. Nevertheless I should have said that criticism of the company is not nearly so vicious or widespread as it was in the early days after the resumption of relations, even allowing for the fact that one's sensitivity tends to be dulled after months of reading Tehran Press comment.

10. The one general conclusion which I think it legitimate to draw from recent comment is not, I fear, encouraging. There is still no doubt of the Government's determination to achieve a settlement, but the interval in the talks and the relative weakening of the Government's position, appears to have brought about a hardening of their attitude on the question of compensation. I suspect they realise that they will have to make unpalatable concessions over the future operation of the industry (though they will fight every inch of the way) and that they hope to obtain a virtual cancellation of claims and counter-claims as a *quid pro quo*. This has, of course, always been on the cards. If I am right, we shall more than ever need the support of the United States Government and Embassy and the members of the Consortium other than the A.I.O.C. on the compensation issue.

11. I am sending copies of this despatch to Her Majesty's Representatives in Washington and Baghdad and to the Head of the B.M.E.O. at Fayid and Beirut.

I have, &c.

ROGER STEVENS.

EP 1534/203

No. 46

AUDIENCE OF HER MAJESTY'S AMBASSADOR WITH THE SHAH OF PERSIA ON JUNE 30

Sir Roger Stevens to Mr. Eden. (Received July 6)(No. 43. SAVING. Secret)
(Telegraphic)

Tehran,

July 1, 1954.

I saw the Shah at 10.30 a.m. on June 30. The audience lasted for one hour and twenty minutes. His Imperial Majesty was exceptionally genial and I have never heard him talk with greater clarity or force.

2. When I raised the question of the oil negotiations he at once said that he was not at all happy about the latest turn of events. He understood from Dr. Amini whom he had seen that morning that the Consortium were jibbing at the inclusion of words which made clear how their authority was derived. As he understood

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the position, the two sides were more or less agreed on the manner in which control should be exercised by the Consortium and supervision by the Persian Government. The Persians had thus given them the substance of what they were insisting upon and they had also agreed that there should be a majority of non-Persian directors. He could not understand why in these circumstances they should refuse to admit that they were operating on behalf of and for the account of the Persian Government. If they were worried about the reactions of Arab countries they could surely point to the fact that they would have effective control. He had informed Dr. Amini that unless this point could be cleared up to the satisfaction of the Persian Government he would not be able personally to support an agreement.

3. I told His Imperial Majesty that I was not myself completely up-to-date on the latest meeting with the Consortium which had taken place last night. I understood, however, that they had offered to describe the arrangements as "on behalf of the Government of Iran and the Consortium companies." There was also I believed a reference to a grant of rights and powers from the Persian Government. I would have hoped that these two phrases would have met Persian requirements and would enable the Government to prove that the arrangement was in line with the nationalisation law. I understood that it was very difficult for the members of the Consortium to go beyond wording of this kind. It seemed to me personally that the words "for the account of" carried financial connotations and I reminded the Shah that it was the Consortium that was putting money into this project. I asked him whether he regarded this as a point of real substance or merely of presentation. He said that it was an extremely important point of presentation which went to the root of the whole Persian position and he regarded the wording on which he had instructed Dr. Amini to insist as essential to the successful passage of the agreement through Parliament.

4. I then remarked that I thought it was a good thing that these points were being thrashed out at the start and I asked the Shah whether he felt there were any other points of real difficulty in the agreement. He made rather an obscure reference to the importance of payment being made through N.I.O.C. in order to lend colour to the essential basis of the arrangement, but he did not suggest that this was a point on which differences had so far clearly emerged. He said that he did not think that the question of duration was a sticking point. As regards quantities he appeared satisfied with the arrangement proposed for the first three years, but suggested that a guarantee of 30 per cent. of Middle Eastern production should be given as regards the ensuing period. I told him that this was not possible and might not even be to the advantage of Persia. I thought that the best guarantee that Persia would be treated equitably as compared with other Middle East countries was that the eight major oil companies were all concerned in Persian production.

5. I then raised the question of compensation, stressing that we thought it important that it should not be left behind. I said that we were all resolved that it must form part of the agreement and we did not want the agreement to be delayed, least of all, by what might prove a controversial Anglo-Persian issue. The Shah agreed and then remarked that the sum which Persia would have to pay [sic] could not on any account be described as relating to loss or damage arising from the events of 1951. This was completely out of the question, as it would give rise to counter arguments about what Persia had lost as a result of the events of 1951 and raise the whole question of the allocation of responsibility for these events. I pointed out that I was fully convinced on the basis of what happened in 1951 that the A.I.O.C. were justified in terms of equity in making a claim for the losses they had suffered and the additional expenditure they had incurred during this period. We were, however, quite ready to apply our minds to finding some different title to cover the net payment by Persia. The Shah suggested that it would be quite easy if the payment could be for "Abadan and Kermanshah." I pointed out the difficulties of this so far as the southern installations were concerned and said that I thought the Persians were getting them very cheaply.

6. The Shah then observed that if an agreement could not be reached, the matter would have to go to arbitration. I said that this would be unfortunate as it would mean delay and continued friction in Anglo-Persian relations. His Imperial Majesty replied that he thought the effect on Anglo-Persian relations would be less unfavourable than a direct settlement which gave rise to political controversy on account of its terms. The Persian public thought that The Hague Court was a

fair-minded institution; he believed reference to The Hague Court could be made without bitterness or recrimination and that its conclusions would be accepted without question. He agreed, however, that it would be better if the matter could be satisfactorily settled directly between us.

7. In the course of the ensuing conversation, the Shah mentioned that he intended to go to Azerbaijan when agreement in principle had been reached, and he was planning to do this in about ten days. Parliament would dissolve for a month in about a week and he hoped that when they reassembled an agreement in legal form would be ready for ratification. I said that I thought this was the minimum period which it would take to prepare.

8. We also discussed the importance of publicity once agreement in principle had been arrived at. He said that he entirely agreed and had discussed this matter with the Foreign Minister and was setting up a small committee on which M. Alam and M. Akbar would serve, among others.

EP 1534/227

No. 47

PROPOSAL TO OBTAIN INTER-GOVERNMENTAL AGREEMENT WITH PERSIANS

(1)

Mr. Eden to Mr. Stewart (The Hague)

(No. 241. Confidential)
(Telegraphic)

*Foreign Office,
July 24, 1954.*

Persian Oil.

We should like to obtain some inter-governmental agreement under which the Persians would undertake:—

- (i) specific obligations to Governments to observe the terms of their agreement with the consortium; and
- (ii) to refer to the International Court disputes which cannot be resolved by other means.

2. Our past experience in Persia and at the International Court shows how necessary such an arrangement is. The United States and French Governments agree, as do all the oil companies concerned. Her Majesty's Ambassador at Tehran and we believe his United States colleague are approaching the Persian Government, but in view of the developments recorded below are at this stage not specifying what form an agreement might take.

3. An exchange of Notes would be the most suitable method and could take the form either of—

- (a) separate Persian exchanges with all four Governments concerned; or
- (b) a Persian exchange with one Government, which would in turn give the other three Governments an assurance that it would refer to the International Court disputes affecting their interests.

4. The consortium operating companies in Persia will have Dutch nationality, and the Persians would therefore probably find an exchange with the Netherlands Government the least unacceptable course. Moreover, without Dutch participation (a) above would be impossible and (b) much less likely to be secured.

5. We have represented through the Netherlands Embassy here the importance we attach to this. They have now informed us that their Government are not willing to take part in any form of an exchange of letters providing for "an inter-governmental obligation" in regard to taking disputes to arbitration. They apparently do not wish to identify themselves with the Royal Dutch Shell Group (or indeed with any other private concern), and argue that to exchange such Notes would be to accept responsibility for the actions of an organisation over which they would have no control. They also say that it would create a precedent for similar requests from other Dutch companies.

6. We have explained that we are not asking them to undertake any obligations to the Persians for the consortium operations. Our object, whether or not we can secure it, is that the Persians should undertake purely unilateral obligations. Neither we nor the United States Government have any intention of guaranteeing in any way the performance of our own companies' obligations to the Persians. We have also argued that past history in Persia and the paramount importance of ensuring so far as possible that it is not repeated fully justify creating a precedent.

7. We understand that your United States colleague will consult you with a view to further representations to the Netherlands Government. Please support him in any manner agreed between you.

EP 1534/244

(2)

Mr. Stewart to Mr. Eden. (Received July 27)

(No. 156. Confidential)
(Telegraphic)

*The Hague,
July 27, 1954.*

Your telegram No. 241: Persian Oil.

After consulting my United States colleague I saw Director Africa and Middle East Department this morning and spoke as instructed. He undertook to report what I had said and to ensure that Dutch attitude should be re-examined, but extended little hope that arguments I had put forward would cause them to change their view. His principal fear seemed to be that even though there should be separate Persian exchanges with all four Governments, nevertheless, the Dutch, as the holding company, would be the one which would be made the Aunt Sally should difficulties arise and this, whatever we may say to the contrary, would undoubtedly have adverse effects on their other interests in the Middle East, aviation, shipping, trade, &c. My American colleague is speaking on similar lines this afternoon.

EP 1534/244

(3)

Mr. Stewart to Mr. Eden. (Received August 3)

(No. 159. Confidential)
(Telegraphic)

*The Hague,
August 3, 1954.*

My telegram No. 156: Persian Oil.

Director African and Middle East Department told me this morning that this question had now been re-examined by all departments concerned. They had been unable, however, to change their view.

EP 1534/331

No. 48

OBSERVATIONS ON THE FUTURE OF THE ANGLO-PERSIAN OIL NEGOTIATIONS

(1)

Sir Roger Stevens to Mr. Eden. (Received August 20)

(No. 63. Secret)
Sir,

*Tehran,
August 13, 1954.*

Now that agreement on the principles of an oil settlement has been reached, I have the honour to submit some observations on the course and prospect of the negotiations.

2. After two-and-a-half years of frustration due to Persian indecision, ignorance, emotionalism and guile, it is pleasant to be able to record that this negotiation

was remarkable for the decisiveness, intelligence, realism and rectitude displayed by the Persian delegation. In the circumstances in which the negotiations began, it cannot have been easy to decide how they should be conducted or to pick a team which could be trusted. For some time after the resumption of relations M. Entezam appeared to be in command. But later it was resolved to maintain the

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threads of responsibility in the hands of the Minister of Finance and a group of half a dozen experienced officials⁽¹⁾ on whom complete reliance could be placed. This was undoubtedly a wise decision, but it put a great strain on these limited resources, and called for unusual stamina and resilience on the part of the individuals concerned. On the other hand, it also involved a most valuable concentration of knowledge, meant that the principal Persian negotiator was always completely on top of his subject and facilitated rapid decisions. In a country hampered by a large, lazy, inefficient and corrupt civil service, and in which anything that gets done has to be done by a few industrious patriotic and determined individuals, the course followed was not only right but probably the only one that would have succeeded. Great credit is due to Dr. Amini and his tiny band of devoted and courageous fellow-workers for their massive labours, their quick understanding, their fundamental good sense and their unfailing good humour.

3. I am sure that the Consortium representatives would concur in my view that it is difficult to write of the performance of Dr. Amini himself except in superlatives. Before the negotiations began he had the reputation locally of being clever but indolent. He was known to have a good brain and the gift of the gab, but was thought to be rather shifty and evasive, and to have employed his talents to run away from trouble and escape responsibility. But this was his occasion, and he rose to it with a determination and a sense of duty which few could have foreseen. None of us fully understand yet how he managed to keep an eye on the affairs of his Ministry (including the preparation of a budget), appear for several hours daily in Parliament (*inter alia*, to steer through a contentious note cover bill), and at the same time not merely attend regularly meetings with the Consortium and on compensation but also retain complete command of the subject-matter under discussion at the conference table. There was never any doubt that the threads were all in his hands; they had to be, for at least until the drafting stage was reached

⁽¹⁾ N.B.—These were Fathullah Nuri Esfandiari (Personalities Report No. 87); Fuad Rowhani, Legal Adviser to the N.I.O.C., formerly to the A.I.O.C.; Fathullah Nafisi, Managing Director of the Iranian Oil Company; Reza Fallah, Manager of the Abadan Refinery and Attallah Ettehadiieh, Distribution Manager of the N.I.O.C. Dr. Amini's deputy on the negotiating team, Senator M.Q. Bayat (Personalities Report No. 37) falls into rather a different category.

there was no delegation of work to sub-committees. This concentration of authority enabled Dr. Amini to maintain a detailed control over the negotiation which was invaluable on all counts. It was much assisted by his close personal relations with the Foreign Minister, M. Entezam, with whom he has been sharing a house during the summer.

4. Dr. Amini's greatest achievement, however, was to have determined, apparently from the outset, to play his hand quite straight. To begin with, he undoubtedly hoped, on the Consortium side, for a full-blooded purchase and sale agency agreement and, as regards compensation, for a wash-out settlement. But as soon as he realised that these were impossible, he worked fairly and honestly for the best compromise arrangements he could get, and concentrated quite frankly on making both agreements as acceptable as possible from the financial, and more particularly from a public and parliamentary, point of view. Given that this was his main preoccupation, it was only to be expected that from time to time he should have indulged in what looked like indiscretions to the press; this was his way of testing public reactions and, still more important, preparing them for what he recognised as the inevitable. His press conferences often worried us at the time, but I do not think he ever aimed at (or succeeded in) calling in *vox populi* to redress the balance at the conference table. For the rest we were all surprised and astonished that, particularly in the later stages of the negotiations, he did not engage in any of the usual tricks, spring any surprises or beat any retreats. On the contrary, I am afraid that in one or two cases these tactics were employed on the Western side, though more from accident than design.

5. In retrospect, I think that there were two turning-points in the negotiations. The first was near the beginning when it looked as though the Consortium would insist on "operation on own account." Had they done so, I believe the talks would have broken down, and though there might have been some sort of arrangement worked out eventually, confidence would have been shaken, and the Government might not have survived. We were saved from these misfortunes by a happy inspiration on the part of Mr. Harden of New Jersey, and a most valuable intervention by Mr. Snow of the Anglo-Iranian Oil Company. I

SECRET

should like to digress at this point to pay cordial tribute to the outstanding rôle played by Mr. Snow in these conversations. He started off with the great handicap of representing in Persian eyes the hated oppressor; the pent-up odium of years might well have descended on his innocent head. That it did not do so was due largely to the transparent integrity and imperturbable modesty of his character, which impressed everyone with whom he came into contact, and caused his comparatively rare interventions to be heard with admiring respect. Being involved in the two negotiations he was more fully occupied than any other principal except Dr. Amini, and the hard work he put in on both counts won universal praise. In the compensation negotiations his wise counsel and patient caution were quite invaluable to me. I know, too, that Mr. Howard Page, whose own part in the proceedings was a brilliant combination of industry and imagination, found Mr. Snow of inestimable assistance and he won golden opinions also from Mr. Loudon who himself played a most useful rôle in creating a general and understanding atmosphere during the first round of talks.

6. The second turning-point occurred shortly after the negotiators came back to Tehran towards the end of June. At the beginning the Shah had remained aloof and uncommitted. He indicated that he would only back an agreement which conformed to the nationalisation law. He questioned whether Dr. Amini was sufficiently firm a negotiator. He toyed with the idea of changing his Government. He inspired mildly critical articles in the press. He apparently believed rumours (not yet quite dead) that we really did not want a Consortium solution at all. But about the end of June, if not before, he must have decided, apparently suddenly, to put his whole weight behind the settlement. This, I think, was partly due to the advice he got from the United States ambassador and myself against making a change of Government; he realised then that he could not hope to play for time. It may have also been partly due to firm words used on him by Mr. Henderson then and earlier; I cannot speak too warmly of Mr. Henderson's interventions during this negotiation, not only in the direct interest of a settlement but also with the object of displaying Anglo-American solidarity and supporting the position of Her Majesty's Government on specific issues such as compensation. It is interesting to observe that when the Shah

did make up his mind he seems not merely to have accepted the fact that the sort of settlement along the lines then being discussed was the best that could be got and to have decided to put his whole weight behind it. He also started to take a keen personal interest in some of the details of the agreement. For example, he suggested, on grounds which politically made a lot of sense, that there should be one rather than two operating companies (a proposal which was, however, subsequently withdrawn); he originated the idea of an alteration in the area of the concessions as a means of giving the settlement a new look; and so forth. I understand that His Majesty is very gratified that some of the ideas which he injected at this juncture have been taken into account and will be reflected in the final agreement.

7. The foregoing account of the Shah's interventions and subsequent attitude towards the settlement may seem rose-coloured when compared with the terms of qualified approval in his reply to Mr. Eisenhower's message, to which Sir Roger Makins refers in his telegram No. 1732 to you. But on this there are several points to be made. Firstly, I think the *New York Times* is perhaps unduly sensitive to the qualifications of the Shah's approval. To the Persian reader his message appears to involve an unusually full measure of support. Secondly, I think the Shah allowed some of the words in the message to be chosen for him. Mr. Henderson has good ground for believing that the qualifying phrases were drafted by, or at least reflect the views of, M. Ala, the Minister of Court, and formerly Persian Ambassador to Washington. M. Ala's attitude towards the settlement is undoubtedly coloured by personal considerations. He had hoped to exercise a decisive influence on the outcome through his relative, M. Nemazi, the self-appointed mouthpiece of the American independent oil companies. But early in the proceedings M. Nemazi was refused admission to the inner councils of the Persian delegation; and in the later stages he retired discomfited from the stage. M. Ala has been correspondingly disgruntled, and has been himself sniping from the wings. For example, he has been encouraging Professor Gerbrandy, the former Dutch Prime Minister, on his Onassian proposal for building a Persian tanker fleet in the Netherlands, and he was even successful to the extent that he got a piece of paper about non-discrimination

in the use of tanker tonnage tabled in the closing stages of the negotiation on the aide-mémoire. It was significant, however, that this paper was put forward anonymously and was not endorsed by Dr. Amini, from whom Professor Gerbrandy got short shrift when he went to see him. M. Ala has, and may continue to have, a certain nuisance value. His grudge against Dr. Amini for being successful might be dangerous if he exercised any real influence over the Shah. But all the indications are that he does not; indeed, the Shah dropped an ostentatious hint to me the other day through a third party that he did not take Ala very seriously—he was “a nice old boy,” nothing more. He has no doubt to give him a little rope occasionally, as in the case of the Eisenhower message; but his influence is not likely to be decisive.

8. In my judgment the Shah is now fully committed to backing this agreement to the point of ratification. The very fact that he agreed to the publication of the Prime Minister's message with its (designedly) specific phraseology about continuing support is evidence of this. Only some new and unforeseen circumstances could change his course now. More significant than the terms of his message to Mr. Eisenhower is the language he used to the parliamentary leaders at a religious rally on August 10: “The agreement just reached appears to me honourable and equitable. Our delegation has exerted the maximum effort to recover our rights. It is now time that Members of Parliament seize the present opportunity and strive still more to serve their country in order that we may witness great progress by the country and the nation.” These words have made a great impression and are generally regarded as further improving the already good chances of ratification.

9. I have previously reported that these prospects are rated high. There will be plenty of criticism. There will be critics who will attack the agreement and then vote for it. There will be a vocal organised opposition—organised, some say, by Dr. Amini for the purpose of channelling criticism, though this I do not believe. But there can be no constructive criticism, simply because there is no practical alternative within easy range. Provided the Government continues to present its case convincingly (and it is sometimes suggested that Dr. Amini's parliamentary manner is more dialectical than persuasive), the sheer weight of the argument in favour of this settlement—the hope of employment, the promise of a guaranteed flow of an income far exceeding anything achieved earlier, the prospect of a partnership with the world's biggest oil companies instead of “exploitation” by one of them, the attraction of ending a period of stagnation—is almost bound to prevail. In the face of it, bitterness over compensation, suspicion and incomprehension about sterling payments, injured pride over management, even the worst insinuations and accusations that the Tudeh Party overtly or covertly can bring to bear on the situation, are likely to be of little effect. The attitude of the Shah could, it is true, change that situation overnight, but I cannot see this happening now. It is, I think, after ratification that there may be shoals ahead and surprises in store.

10. I am sending a copy of this despatch to Her Majesty's Ambassador at Washington and to the Director of the British Middle Eastern Office at Fayid.

I have, &c.

R. B. STEVENS.

EP 1534/355

(2)

Sir Roger Stevens to Mr. Shuckburgh. (Received August 24)

(No. 15327/35/54G. Secret)

Tehran,

Dear Evelyn,

August 20, 1954.

There has been some interesting confirmation this week of the analysis given in paragraphs 8 and 9 of my despatch No. 63.

2. I am reliably informed that at the beginning of this week the Shah sent a letter to all doubtful Senators and Deputies to say that he hoped they would support the agreement in the interests of Iran. He would regard their opposition to it as opposition to himself. As a result of this there has been a marked tendency to clamber on to the band waggon. One of the best informed and most formidable of the potential opponents of the agreement, Senator Husein Pirnia, has apparently been casting about in some desperation to know how he should act without ruining

his future political ambitions (which are unlimited). His first idea was apparently to be out of the country at the time when the crucial vote was taken. He has now, it seems, been persuaded by the Shah's letter and by Ardeshir Zahedi, the Prime Minister's son, to remain and to give qualified support to the agreement. He will continue to criticise it but in the final count he will not oppose it and will be prepared to testify that it is the best agreement which can be had in the circumstances.

3. It should not, however, be assumed that as a result of the Shah's action everything will go smoothly in Parliament from the outset. There is likely to be a good deal of criticism of details of the agreement by people who do not understand it or are determined to display their patriotic feelings. Such criticism will not qualify as opposition to the agreement but it might easily lead to the demand for substantial and perhaps damaging amendments which would require re-negotiation. This might have the most serious consequences and everything really depends on the extent to which the Government, in the person particularly of Dr. Amini, is prepared to back to the hilt on a take it or leave it basis whatever document is agreed with the Consortium and subsequently initialled by the companies. We shall know more about this after the discussion of the Consortium draft of the final agreement, which is due to begin on August 21. (This has been sent to London, see our telegram No. 982 and we presume copies are now available in Whitehall.) I understand that the final agreement is likely to be submitted in the first place to a thirty-six-man committee drawn from Senate and Majlis, and if this body were to start to make amendments it would obviously be deplorable. To judge from recent Press comment, the sort of points against which criticism may easily be directed are the production programme after three years and the powers of the Iranian directors.

4. Henderson and I are in close touch with the Consortium about tactics. Amini has expressed a strong wish for the Consortium negotiators to be here during the parliamentary debate, and they have (rather hesitatingly) decided to meet him on this.

I have, &c.

ROGER STEVENS.

EP 1534/388

No. 49

PRESENTATION OF THE OIL AGREEMENT TO THE SENATE AND THE MAJLES

Sir Roger Stevens to Mr. Eden. (Received October 1)

(No. 75. Confidential)

Tehran,

September 28, 1954.

Sir, I have the honour to report that the oil agreement between the Consortium and the Persian Government was presented to the Majles on the 21st of September and to the Senate the following day. You will be aware of the sequence of events between the signing of heads of agreement early in August, on which I reported in my despatch No. 63 of the 13th of August and the initialling of the Agreement in its full form early in September. The English text of the Agreement was signed by Dr. Amini the Minister of Finance, on behalf of the Persian Government in Tehran in the early hours of the 19th of September and was immediately flown to Amsterdam, London and New York for signature by representatives of the oil companies. In fact, Dr. Amini began his speech presenting the Agreement to the Majles a few minutes before final confirmation reached him that the last signatures of the representatives of the United States oil companies had been affixed in New York.

2. After a brief speech by the Prime Minister, who recommended the Agreement to the Majles as the best possible in the circumstances, and praised the goodwill shown by the Western Powers, Dr. Amini spoke for an hour. In spite of the length of his speech, and the reserved attitude of Parliament towards his forensic abilities, the Majles gave him a good reception, and only one deputy (Qanatabadi) was openly critical.

SECRET

3. Dr. Amini emphasised that the Persian negotiators had extracted every ounce from the other side which present-day conditions will permit. The Persian ideal of a wholly Persian oil industry, he said, could only be achieved when Persia possessed the technical, material and economic resources to compete all over the world with powerful trusts supported by the Great Powers, and when "moral and altruistic" considerations outweighed "material and commercial." He lauded the achievements of the "National Movement" (taking pains to distinguish them from the follies of Dr. Mussadiq) and dwelt at some length on the past sins of the Anglo-Iranian Oil Company, notably the Company's alleged interference in Persian internal affairs. It was to make such interference impossible in the future, he said, that the Persian Government had decided to negotiate with an international consortium rather than a single company from any country. He referred acidly to the Persian tendency to label as traitors those who had the courage to negotiate international agreements of vital importance to the nation's future. He appeared to exaggerate the degree of control or supervision which the Persians hope to exercise over the industry under the new Agreement. He praised the goodwill shown by Her Majesty's Government and the United States Government in terms which contrasted with his rather more tepid references to the companies themselves. He dealt cleverly with compensation, explaining how the Persian negotiators had fought every inch of the way; and implying that, however much "moral" considerations might entitle the Persians to set off the Anglo-Iranian Oil Company's claims against their own counter-claims, and so to avoid paying any compensation (or even to have a balance in their favour) they had been lucky by legal and commercial standards to escape with a net payment of £25,000,000.

4. Reduced to its simplest terms Dr. Amini's message to the Majles might be interpreted as follows:—

- (a) Persia needs a large income from oil;
- (b) she cannot at present get it without foreign co-operation, though every true Persian hopes the day will come when she can do it by herself;
- (c) meanwhile, the Persian Government have extracted the maximum possible financial advantage from the negotiations, while retaining an adequate degree of control and safe-guarding themselves against foreign interference in the country's affairs; and (implicitly)
- (d) they may be able to extract further benefits as time goes on.

5. Dr. Amini's speech was undeniably effective in the setting of the Majles, though certain passages and much of its general tone provide pegs on which the opposition can hang their criticism. A number of friendly deputies have since said privately that Dr. Amini paid unnecessarily generous lip service to the nationalists. I am inclined to agree with this view. He perhaps cannot entirely forget that he was at one time a member of Dr. Mussadiq's Cabinet. Rather typically, he tacitly admitted to me afterwards that his remarks about the Anglo-Iranian Oil Company and about foreign interference were designed to take words out of the mouths of the opposition and did not represent his real views.

6. As regards ratification, the Government wish to avoid a long-drawn-out public debate on the Agreement article by article but they must preserve the appearances of democratic procedure. At the Government's request the Senate and the Majles have each elected 18 of their members to form a special committee. This committee is at present examining the Agreement with Dr. Amini and his advisers in attendance. The Agreement has been submitted under cover of a single article bill. Theoretically under this procedure Parliament cannot amend the text but simply approve or reject it. The bill itself contains a clause invalidating any previous laws or regulations which may conflict with the Agreement. Although such clauses are common practice in Persian legislation in this case there are some persons already suspecting that this is intended to cover up any contravention by the Agreement of the Nationalisation Laws. Furthermore, those who, like Qanatabadi, oppose the Agreement in principle have contended that the procedure of a covering single article bill can only be applied to agreements with foreign governments. This is not so, but their arguments on this point have no doubt misled some persons into thinking that the Government are proceeding illegally.

7. Some newspapers have recently urged the Majles to take their time, thereby indirectly criticising the Government and risking suppression. Although there seems little doubt that there is already a clear parliamentary majority in support of the Agreement the Government would do well to avoid, as far as

SECRET

possible, laying themselves open to charges of pushing the Agreement through or unduly forcing the pace of ratification. They seem to be more aware of this danger than at first appeared. Although the special parliamentary committee is meeting almost every day and working exceptionally long hours by local standards, it is showing no disposition to let itself be hurried. (Even so it has made good progress.) The Committee's attitude is not surprising in view of the complexity of the Agreement and the fact that the text cannot be rendered into Persian with the same clarity and exactness that it possesses in English, since the Persian language lacks generally-accepted equivalents for many English legal and technical terms. Many members of the Majles are admitting to the greatest difficulty in understanding the Agreement, but in some cases at least this difficulty is not exclusively linguistic.

8. The composition of the special committee is fairly satisfactory from the Government's point of view. It has not got an undue proportion of troublesome elements and at the same time is not obviously "packed." Of the Senators only one (Lessani) is an acknowledged opponent of the Agreement and although a few of the Deputies have more or less opposed the Government or shown a tendency to demagoguery over the oil question in the past, none of them is of the mettle or the opinion of Qanatabadi. Another encouraging sign is that parliamentary comment on oil has sobered noticeably since the text of the Agreement was presented.

9. It is still too early to say whether the Government will succeed in preventing the Majles from proposing amendments of substance. If they are successful, the Majles might still try to assert itself by suggesting changes in the Persian text, which would improve the language without altering the substance. Even this might cause difficulties for the consortium, which would quite likely fear that such linguistic amendments were only the thin end of the wedge.

10. Generally speaking the prospects of a fairly smooth ratification still appear to be good and the process may take much longer than the original parliamentary estimates, (as opposed to those of the Shah and the Government) of four or five weeks from the date of presentation to Parliament. If this proves correct, ratification would take place in the latter part of October.

11. I am sending copies of this despatch to Her Majesty's Representatives at Bahrain, Bagdad, Paris, The Hague, Washington and to the Heads of the British Middle East Offices at Fayid and Beirut.

I have, &c.

R. B. STEVENS.

EP 1534/397

No. 50

TREATMENT OF INDEPENDENT OIL COMPANIES

Sir Roger Makins to Mr. Eden. (Received October 7)

(No. 2143. Confidential)
(Telegraphic)

Washington,
October 7, 1954.

Persian Oil—Treatment of Independents.

State Department to-day informed a member of my staff that they had already received applications from three independent American oil companies who wished to buy up part of the shares at present held by the major American oil companies in the consortium. State Department were sending formal acknowledgments in reply to these and any other applicants, saying that their names have been noted and would be brought to the attention of the appropriate authority at the proper time.

2. Names of the companies who have so far applied are Cities Service, American Independent and Anderson Purchard Oil Corporation of Oklahoma. The latter company was described as an old established small business of good reputation.

3. These developments are no doubt connected with Hoover's appointment as Under-Secretary of State. Our information is that the sale of American shares to independents would be limited to 5 per cent. and that applicants will have to be approved by all the present members of the consortium. This would be in

SECRET

accordance with the private understanding already reached between consortium members. State Department add that they have not finally made up their minds how to handle applications, but it is probable that they will decide to turn the whole thing over to the companies. State Department say they are not convinced that any applicants will stay the course when they realise the full implications of membership.

UES 1174/28

No. 51

(1)

MIDDLE EAST OIL TALKS

Sir Roger Makins to Mr. Eden. (Received October 13)

(No. 2180. Confidential)
(Telegraphic)

Washington,
October 13, 1954.

Middle East Oil Talks.

The first meeting took place in the State Department this afternoon. Record follows by bag. The following questions arose on which we should be grateful for any information you could send us before the next meeting on October 14:—

(c) The State Department outlined the position with regard to the projected transfer of a 5 per cent. share in the Persian Consortium from the five major American companies to American independents (my telegram No. 2143 of October 7). They asked whether Her Majesty's Government had any views on this operation and in particular whether they had any interest in the decision as to which independent companies should be allowed to participate.

EP 1534/408

(2)

Sir Anthony Eden to Sir Roger Makins (Washington)

(No. 5284. Confidential)
(Telegraphic)

Foreign Office,
October 20, 1954.

Your telegram No. 2180 of October 12: Middle East Oil Talks, paragraph 1 (c).

As you know, we acquiesced reluctantly in the admission of independents. We do not now expect serious objection from public opinion here, although we should have to make it clear that the total American holding was not increased. But we may still face recrimination from the Belgians and Italians whose requests to join the Consortium were rejected on grounds incompatible with the admission now of the American independents. We therefore still hope that the independents will not join. But if they do, we should prefer that any announcement be deferred for at least six months after ratification of the oil settlement. It would then attract less attention and could be more easily represented as a normal commercial transaction.

2. Please make the following points to the State Department:—

- (i) We do not wish to comment on the choice of independent companies.
- (ii) We should not be able to approve either an increase of the 5 per cent. share or any pressure by Governments to alter the conditions of participation laid down in the inter-company agreements if the American independents find them too stiff.
- (iii) We cannot be regarded as committed to giving currency facilities to the independents, and a request for them would have to be considered on merits. The independents' circumstances are not comparable with those of the present participants.
- (iv) We think it important that there should be a reasonable interval, say six months, before the announcement of the transfer of shares, and that meanwhile there should be no public mention of the question.

SECRET

- (v) We agree that the independents might well be frightened off when they learn the entrance fee and the position under (iii) above.
- (vi) We think that as a first step they should approach the present participants. We and the State Department would then consider the matter again when they have done so.

EP 1534/407

No. 52

MAJLIS APPROVAL OF OIL AGREEMENT

Sir Roger Stevens to Sir Anthony Eden. (Received October 21)

(No. 1208. En clair)
(Telegraphic)

Tehran,
October 21, 1954.

Majlis approved Oil Agreement this morning by 113 votes to 5 with 1 abstention. Agreement will now go to Senate.

2. Please inform A.I.O.C. and Shell.

EP 1534/415

No. 53

SENATE APPROVAL OF OIL AGREEMENT, OCTOBER 28, 1954

Sir Roger Stevens to Sir Anthony Eden. (Received October 28)

(No. 1231. En clair)
(Telegraphic)

Tehran,
October 28, 1954.

My telegram No. 1208: Oil Agreement.

Senate approved the oil agreement this morning by 41 votes to 4, with 4 abstentions, including the President of the Senate, who does not normally vote. Signature by the Shah is expected to-morrow when his birthday is being officially celebrated.

Please inform A.I.O.C. and Shell.

EP 1534/415

No. 54

SIGNATURE OF OIL AGREEMENT BY SHAH ON OCTOBER 30, 1954

Sir Roger Stevens to Sir Anthony Eden. (Received October 30)

(No. 1240. En clair)
(Telegraphic)

Tehran,
October 30, 1954.

My telegram No. 1239: Oil Agreement.

Regret information in my telegram under reference was incorrect. Shah signed Act at 11 a.m., October 29.

EP 1531/151

No. 55

SUGGESTIONS BY HER MAJESTY'S AMBASSADOR

Sir Roger Stevens to Mr. Eden. (Received March 28)

(No. 238. Secret)
(Telegraphic)

Tehran,
March 28, 1954.

My immediately preceding telegram.

This telegram deals with Compensation.

2. This negotiation will not only prove extremely difficult; it will also draw down the maximum odium on those who conduct it. I suggest it is for consideration whether in the interest of future relations between this Embassy and the Persian Government it would be desirable for the detailed discussions, which

SECRET

I fear may be inevitable, to be undertaken by myself or any member of my staff. Naturally I would start the ball rolling but if long [groups undecipherable] ensue it might be better for us to remain in the background and the discussions to be pursued by visiting representative, e.g., Serpell.

3. In any event, I think there would be advantage in linking this negotiation, both as regards channel and in Persian mind, with payment negotiation which after all represents something of a *douceur*. To reduce the number of separate negotiations all going on simultaneously, might also help to speed things up. Dr. Amini will be directly involved with all of them and we must, I fear, anticipate great organisational difficulty on the Persian side in any event.

4. In preparation of the brief it will obviously be necessary to substantiate the figures demanded by reference to specific losses, &c., including depreciation in the total value of the enterprise. Any claim for loss of profit subsequent to 1954 must, however, be specifically disclaimed. At the same time authority might be given to tell the Persians that though this was the genuine basis of the claim any other explanation which they found more convenient for the purpose of presentation could be given consideration.

5. I also think it important that the brief should indicate what argument should be used to convince the Persians that in paying over a sum, which is only just under half that paid by seven powerful oil companies in combination, they are getting value for money. Unless they are shown this they will not be prepared to sell it to the their public and will not therefore agree to it.

6. I also hope the initial bid can be described as £50 millions plus interest (my telegrams No. 222). Is it necessary to assume for purpose of formulating claims that repayment has to be spread over as much as twenty years?

EP 1534/54

No. 56

INSTRUCTIONS TO HER MAJESTY'S AMBASSADOR IN REGARD TO NEGOTIATIONS WITH THE PERSIAN GOVERNMENT ON COMPENSATION FOR THE ANGLO-IRANIAN OIL COMPANY

Mr. Eden to Sir Roger Stevens (Tehran)

(No. 65. Secret) Foreign Office,
Sir, April 8, 1954.

As you will understand, it is impossible to give your Excellency any very detailed instructions in regard to your negotiations with the Persian Government on compensation for the Anglo-Iranian Oil Company; much will necessarily depend on the manner in which the other negotiations develop, and on the Persian reaction to your initial approach. I shall be ready therefore to leave you with a wide measure of discretion, subject to the needs of the Consortium negotiations as a whole and of the understanding between Her Majesty's Government and the United States Government contained in my telegram 1069 Saving to Washington of the 26th of March.

2. Your Excellency will of course need to consult the Consortium negotiators in regard to the time at which the first discussion with the Persian Government about compensation should take place, in order that it may be in consonance with

the progress made in the main negotiations. Similarly, you should keep in touch with the Consortium negotiators in order to judge the most propitious moment for an attempt to conclude your negotiations. In this you will no doubt bear in mind the danger that the question of compensation might be put aside by the Persians until the Consortium Agreement had been nearly concluded. If this happened it would probably lead to pressure on us, both by the Persian Government and by the United States Government, to sacrifice compensation for the sake of the Consortium Agreement. When however the time for your parallel negotiations has been arranged, the line I would suggest might be taken would be somewhat as follows.

3. At the outset, you should make it clear that pending a satisfactory conclusion to the Consortium negotiations and of a settlement of the compensation question, A.I.O.C., and Her Majesty's Government on the Company's behalf, must reserve all their

SECRET

legal rights. Anything said during the course of the present negotiations is without prejudice to A.I.O.C.'s full claims.

4. Your Excellency might go on to say that, the A.I.O.C. having been deprived of its undertaking, the Persian Government themselves have, you understand, recognised that compensation would be rightly payable to the Company. Indeed Her Majesty's Government were convinced that the Persian Government would wish to show the world that they were ready to deal fairly with foreign capital. You should add that there was no intention of asking Persia to pay more than was reasonable or could be sustained by her economy. Further, Her Majesty's Government were not suggesting that Persia should pay immediately whatever sum might be agreed. What they had in mind would be a payment which could be spread over a period of, say, twenty years.

5. You might then explain that, as the Persian Government had already been made aware, there would be no question of a claim for the loss of future profits after the date of the coming into force of the new Agreement with the Consortium. What would be claimed would be (a) payment to A.I.O.C. for the loss and damage arising directly or indirectly out of the events of 1951, up to the date of the coming into force of the Consortium Agreement, and (b) payment for the fair value of the Kermanshah Refinery, the Naft-i-Shah oilfield, and of the internal distribution facilities. With regard to (a), account would have to be taken of the fact that, in the three years from 1951, there had been a loss of production of some 100 million tons of oil, and the consequent loss to A.I.O.C. of profit on it. Other losses too would have to be taken into account, and to go through them all in detail would inevitably be a long, troublesome and time-wasting process. In the opinion of Her Majesty's Government such a course could only result either in protracted negotiations or in resort to arbitration. This was not the desire of any of the parties involved, although Her Majesty's Government and the A.I.O.C. considered that arbitration might be inevitable if agreement by negotiation could not be reached.

6. Your Excellency might conclude this first meeting by saying that, having regard to the atmosphere of goodwill in which the Consortium negotiations had been entered into and to the common desire that a satis-

factory settlement on all counts should be reached without delay, Her Majesty's Government suggested that the Persian Government might consider the proposal that they should agree to make a *net* payment to A.I.O.C. which would be taken to eliminate all claims and counter-claims.

7. The object of mentioning the figure of 100 million tons loss of production given in paragraph 5 above would, of course, be to test the Persian reaction to the idea of a payment of the order of magnitude sought, whilst avoiding entering into discussion of figures, or into detailed examination of all the items of A.I.O.C.'s claim. It would also avoid putting forward at the outset so large a figure that there would be no hope of obtaining it from the Persians. I must leave to your judgment, in consultation with the Consortium delegation and in particular with the representatives of A.I.O.C., the points at which you would reveal to the Persians the figures represented by individual items of claim, the gross figure which A.I.O.C. might demand, or the net figure which the Persians might eventually accept. It will, however, be obvious to your Excellency that you should if possible avoid giving figures until you know whether the Persians intend to put forward counter-claims and, if so, what they amount to.

8. If the Persian Government mention the possibility of paying compensation in the form of oil at cost, you should reply that this manner of payment would raise questions of great concern to the whole Consortium. It could not be agreed to without reference to the Consortium delegation.

9. I attach, for your own information, a statement by A.I.O.C. of the items on which they build up their claims (Annex A) (1), together with a statement of counter-claims which have been made by the Persians in the past, some of which will no doubt be repeated (Annex B) (1). If, as I hope, the procedure outlined above succeeds, it may never be necessary to argue these in detail with the Persians. If, however, it becomes in your opinion necessary to do so, you should inform me and at the same time consult the representatives of A.I.O.C. about the sequence in which various items should be put forward. Whether you should need to use them or not, the representatives of A.I.O.C. have been asked to point out to you the items which could most easily be substantiated and those which might prove more complicated to evaluate. I

(1) Not printed.

would, however, draw your attention to one point: the basis of claim mentioned in paragraph 7 of the document at Annex A, namely, the diminution of the capital value of A.I.O.C.'s enterprise, to some extent overlaps with the basis taken in paragraphs 5 and 6 of the same document. It is, moreover, one which might be difficult to evaluate without reference to the loss of earning power, *i.e.*, of future profits, claim for which has been specifically ruled out. It is therefore an argument which should be kept in reserve for the present.

10. I also attach a note (Annex C) (1) on the releases and indemnities which it will be necessary to obtain, as the legal expression of the operation of "cleaning the slate." The Memorandum of Understanding between the members of the Consortium, a copy of which will be handed to you by the representative of A.I.O.C. is for commercial reasons drawn up in such a way that, should any of these releases and indemnities not be obtained, it would be open to any party to the Memorandum of

(1) Not printed.

Understanding to decline to go forward with the project as a whole. It is therefore important to obtain, if possible, all these releases in some or other form; the documents themselves will be drafted at a later stage by the A.I.O.C. As your Excellency will observe from Annex C, it is not necessary that you should negotiate for these releases and indemnities in precisely the same form as that set out in the Memorandum of Understanding between the companies.

11. As I said in paragraph 1, I am ready to leave you a wide measure of discretion in the handling of this difficult issue. The A.I.O.C. have assured me that their representative on the negotiating team, Mr. Snow, will be at your disposal throughout and you will no doubt make good use of the services of Mr. Serpell of the Treasury and Mr. Beckett of the Ministry of Fuel and Power for so long as they can remain in Tehran.

I am, &c.

ANTHONY EDEN.

EP 15315/1

No. 57

RESULTS OF FIRST MEETING (APRIL 20, 1954)

(1)

Sir Roger Stevens to Mr. Eden. (Received April 20)

(No. 349. Secret)
(Telegraphic)

Tehran,
April 20, 1954.

My telegram No. 339: paragraph 6.

The first meeting on compensation was held this morning, Minister of Finance, Dr. Amini, being in the chair.

2. I made a prepared statement based on your despatch No. 65 (text following by bag). In reply Amini made the following points:—

- (i) the Persian Government must likewise reserve all their legal rights;
- (ii) they have always considered the compensation issue to be one between themselves and the Anglo-Iranian Oil Company, but they accept intervention of the British Government as representing the Anglo-Iranian Oil Company;
- (iii) they had always accepted the principle of compensation. The only question was to settle the amount, taking into account the off-setting of Persian counter claims;
- (iv) they were glad to learn that there was no claim for loss or future profit which they had always regarded as without foundation;
- (v) if the Anglo-Iranian Oil Company had suffered damage as a result of events in 1951, Persia had probably suffered more and the Persian Government could make a claim for loss resulting from the economic blockade [*sic*], effect of which on public opinion would have to be taken into account;
- (vi) it would be advantageous to forget the past altogether and start afresh.

3. In reply I said that I did not wish to deal again with the controversial points (*e.g.*, status of Her Majesty's Government in [group undecipherable]), which were covered in my prepared statement. I could not, however, accept the

suggestion that any Persian losses since 1951 were due to us, or that any action by Her Majesty's Government constituted an economic blockade. Amini then quoted the Churchill-Truman letter which to the best of his recollection referred to a blockade or something like it. He said that it was a matter of public knowledge that Persia's economic difficulties were created by Her Majesty's Government.

4. From various remarks made during the discussion, and from the text of Note mentioned in my telegram No. 332 (on which I am reporting separately) I deduce that the Persian Government are endeavouring to confine the settlement to the value of the Anglo-Iranian Oil Company assets, less their claim against Anglo-Iranian Oil Company. Since however we propose to raise loss and damage since 1951 they propose making a claim for their own loss for the same period.

5. At the conclusion of the meeting we agreed on the text of the communiqué contained in my immediately following telegram.

6. I am telegraphing separately about the allegation of blockade.

EP 15315/2

(2)

Sir Roger Stevens to Mr. Eden. (Received April 20)

(No. 350. En clair)
(Telegraphic)

*Tehran,
April 20, 1954.*

My telegram No. 349.

Following agreed Press communiqué has been released.

As it has been agreed that the subject of compensation which does not directly concern members of the Consortium other than A.I.O.C. could best be handled on a direct basis between British representatives and the Persian delegation, the latter held a meeting at the White Palace on Tuesday, April 20, with a group consisting of Her Britannic Majesty's Ambassador, Mr. Snow, representing A.I.O.C., and Messrs. Beckett, Serpell and Wright.

General discussions took place in a friendly atmosphere on the views of the two parties in respect of compensation and both parties expressed determination to reach an early solution of the different matters at issue.

The next meeting will take place on Saturday, April 24.

EP 15315/5

No. 58

RESULTS OF SECOND MEETING (MAY 3, 1954)

(1)

Sir Roger Stevens to Mr. Eden. (Received May 4)

(No. 436. Secret)
(Telegraphic)

*Tehran,
May 4, 1954.*

My telegram No. 349: Compensation.

The second meeting on compensation was held on May 3. Amini read a prepared statement (copy follows by Saving telegram) in answer to my opening statement. He noted that no claim would be made in respect of assets used by the Consortium, and then referred to the Consortium memorandum of April 14, where it was stated that a percentage of the value of facilities in question would be included by the Consortium as annual operating costs. In view of this he asked to be informed of total value set on assets, and exact method of arriving at value. He also rejected Anglo-Iranian Oil Company's claim for damages arising out of the events of 1951, suggesting that the assumption in my statement that a sum was due to the company would require justification, particularly in view of the exclusion of claims for installations in the south and future profits.

2. In my absence owing to illness, Wright thanked Amini for his statement, and said that the points made would require careful study. He wished to say at the outset, however, that the losses incurred by Persia were regarded by Her Majesty's Government as directly attributable to unilateral action taken by

SECRET

the Persian Government. The A.I.O.C. had never relinquished their rights to the oil, and merely took action to which they were fully entitled. Amini pressed for further information about the value of assets to be charged as a cost. Wright answered to the effect that in our view this was a matter for the Consortium and not for compensation negotiation.

3. We extracted from the Persians a list of their counter-claims which they divided into definite debts due from the company which should be exactly assessed, and claims of a more contentious kind. The list follows by Saving telegram.

4. In subsequent discussion Amini rejected our claim for loss and damage on the ground that Her Majesty's Government had recognised nationalisation, and furthermore the company were offered full facilities to continue to ship oil after the passage of the Nationalisation Law. We explained that provisional acceptance of nationalisation was contingent upon a satisfactory settlement, including payment of adequate compensation.

5. Although loss and damage inflicted on Persia as a result of the so-called economic blockade was not listed in the counter-claims, it is obviously the Persian intention to try to secure the cancellation of the two loss and damage claims.

6. Next meeting has been fixed for May 5 when the Persians expect to have monetary figures available in respect of some of their counter-claims.

EP 15315/6

(2)

Sir Roger Stevens to Mr. Eden. (Received May 5)

(No. 444. Secret)
(Telegraphic)

*Tehran,
May 5, 1954.*

My telegram No. 436: Compensation.

At this morning's meeting I concentrated on refuting the Persian rejection of our claims for loss and damage since 1951. I also stated that if the Persians maintained their contentious claims, we could likewise produce claims of similar nature. We would, however, prefer to avoid doing this and concentrate on a broad and just settlement.

2. Amini, in reply, said that Persia could not admit that there had been a unilateral tearing up of the 1933 agreement; she was merely asserting her sovereign rights. He developed this theme at some length and again dwelt on Persia's offer of oil in 1951 to the A.I.O.C. as proof of Persia's goodwill and recognition of the A.I.O.C.'s difficulties. He deplored the entry of Her Majesty's Government into what should have been a purely commercial matter, and asserted Persia's right to claim losses for the "economic blockade." (On this occasion Amini took as his instance only the strong diplomatic pressure exercised by the United Kingdom or other Governments which Persia had been unable to counter-balance.)

3. One point, which may be worth recording, is that the negotiators claim to be entirely unaware of A.I.O.C.'s offer to negotiate on a 50/50 basis on February 10, 1951 (group undecipherable ?reference my telegram No. 84) regarding the explanatory memorandum, paragraph 4).

4. Although, in some ways, I should have preferred to avoid any raking over of past history, it was inevitable that we should do so on one occasion at least, if only in order that Amini should have had his say on the past in front of his fellow-negotiators. A certain amount of reference to the past is, of course, necessary in connection with A.I.O.C.'s claim for loss and damage since 1951, and the refutation of Persia's claim for damage in respect of the "blockade."

5. I am glad to say that Henderson has made the point strongly to Entezam that world opinion will expect payment of compensation to A.I.O.C. by Persia if Persia is to be regarded as a credit-worthy nation, and that the argument used by the Persians as reported in paragraph 4 of my telegram under reference will not be conducive to respect for Persia's word.

6. Only a formal communiqué was issued at the end of to-day's meeting.

7. Next meeting to-morrow evening.

SECRET

EP 15315/8

(3)

Sir Roger Stevens to Mr. Eden. (Received May 6)(No. 455. Secret)
(Telegraphic)*Tehran,
May 6, 1954.*

My telegram No. 444.

As a result of hint dropped down the line, I reverted with Amini this morning, to our discussion on compensation yesterday, on the lines previously agreed with the Anglo-Iranian Oil Company representative. Entezam was present.

2. I said that we hated to get involved in sterile controversy over the past. I realised it might be awkward for the Persian Government explicitly to accept the claim for loss and damage resulting from the events of 1951. (That was what the hint conveyed.) We were quite ready to explore ways of covering it up to help with the presentation. But basically we were completely convinced that the claim was one which could be justified to the hilt on the basis of equity. Leaving the earlier years and legal arguments aside, a great injustice had been done to the Anglo-Iranian Oil Company in 1951; it was for effect of this we were claiming. (To my surprise Amini unmistakably signified assent to this.)

3. I then outlined the procedural position as I saw it. Perhaps I could best express it by saying that if we had to go to arbitration, which we hoped we would not, we should be in a position to produce evidence for asking not much less than £300 millions under this heading. We had cursorily examined the Persian counter-claim and I must frankly say there was little there we could accept as an offset. But we wanted to be generous and to have a quick settlement. If we could get down to discussing compensation on a basis of the net amount due to the Anglo-Iranian Oil Company, payable over a considerable period so as not to burden Persian economy, we should be prepared to think in terms of a very considerable reduction below the figure I had named.

4. As I had heard that Amini had, at least till yesterday, been hoping for a complete washout of the claim and counter-claim I also said that it seemed to me essential for Persia's good name and reputation (especially from the point of view of attracting capital in the future) that the net result of this negotiation should be payment to the Anglo-Iranian Oil Company of a reasonable sum. He did not demur.

5. Both Ministers received my remarks most cordially; nor did they appear to wince at the figure. Amini agreed that to give the negotiations a more practical turn I should repeat my remarks in the plenary [?groups omitted] this afternoon. He merely asked me to be gentle with Bayat's tender feelings. We shall also discuss the Persian counter-claim.

EP 15315/22

No. 59

CONVERSATION BETWEEN HER MAJESTY'S AMBASSADOR AND THE PRIME MINISTER ON JUNE 28

Sir Roger Stevens to Mr. Eden. (Received June 29)(No. 675. Confidential)
(Telegraphic)*Tehran,
June 29, 1954.*

I had an informal talk with the Prime Minister last night. I was accompanied by Snow. I stressed importance of compensation talks keeping pace with progress in Consortium discussions, since the two subjects were inter-dependent. As regards procedure, I said that we were willing to discuss further Persian counter-claims, but first wanted to be clear:—

- (a) that object of such discussions was to enable the Persian Government to say that they had been examined, not to reach final conclusion on the acceptability or otherwise of each claim;
- (b) that the Anglo-Iranian claim for loss and damage resulting from the events of 1951 would also be discussed and brought into the calculations. It was a claim which ought to be met from point of view of equity and justice. I also emphasised that a net payment by Persia was the only

SECRET

outcome of these discussions which would rehabilitate Persian credit and the prestige not only of His Majesty's Government, but also of the Governments associated with the Consortium.

2. Amini reassured us on (a). As regards (b) he expressed willingness to discuss A.I.O.C. claims, but said that he could not agree to arrive at a net figure which was based on an open acknowledgment of this claim. He suggested that after an examination of the claims of both sides, it might be possible to arrive at a net sum to be paid to represent compensation under some general title. He hoped that the amount would be symbolical, to which I replied that there were large as well as small symbols in this world.

3. A formal meeting on compensation has been arranged for June 30. Amini indicated that he would be willing to have the meetings on alternate days on compensation, but it may require an effort to hold him to this. I should, however, be grateful for supplementary briefing on gold clause, and oil supplied to allied forces as soon as possible.

EP 15315/40

No. 60

RESULTS OF MEETINGS HELD ON JULY 22 AND 23, 1954

(1)

Sir Roger Stevens to Mr. Eden. (Received July 22)(No. 787. Secret)
(Telegraphic)*Tehran,
July 22, 1954.*

My telegram No. 778: Compensation.

At further meeting this afternoon we concluded the argumentation of the whole field of claims and counter-claims. I therefore put forward the suggestion of analysis of figures, indicated that it would be reasonable that Persian Government should pay Anglo-Iranian Oil Company a sum of £100 millions and that, in the event of satisfactory arrangements, payment could be spread over a maximum of twenty years.

2. Amini replied that after most careful consideration the Iranian delegation was unable to find grounds which they could defend to their public for meeting loss and damage claims as presented by Anglo-Iranian Oil Company. He did not, as on the previous occasions, try to dissect the claim, but simply said that insufficient evidence regarding company operations was available to him. For example, to accept claim of £78 millions he would have to see all the charter parties. He could not possibly stand up in Parliament and say that he accepted company claim "as stated by them and without supporting evidence." In a spirit of goodwill, however, Iranian delegation had been attempting to find some other basis on which they could explain the company claim. They were prepared to take company net profit in 1950 of £35 millions and apply that to three succeeding years on the assumption that the total net profit of £105 millions had been lost.

3. When I pressed Doctor Amini to state what Iranian counter-claims he was still pressing by way of off-set to this figure he became somewhat reticent, but finally agreed to make an offer at a meeting scheduled for 4 o'clock, July 23. He has told United States Ambassador that the offer will not be large.

EP 15315/43

(2)

Sir Roger Stevens to Mr. Eden. (Received July 23)(No. 792. Secret)
(Telegraphic)*Tehran,
July 23, 1954.*

Compensation.

At 17th meeting this afternoon Amini opened the proceedings by offering net payment of £10 millions. After much argument he increased this offer to £20 millions, saying that there was no prospect of his going higher.

SECRET

2. I maintained throughout the discussion that I was not authorised to discuss any figure below £100 millions and that his offers appeared so small in relation to what we thought just and equitable that I could not undertake even to report them to London. I urged the Persian delegation to reflect again on the problem before our new meeting. I was surprised that Amini doubled his bid during the course of to-day's meeting and I think that we might get him up to £25 millions or conceivably £30 millions. I would regard the last as an absolute maximum. We shall try to arrange another meeting for Sunday to test him and also to discuss the draft formula (copy by bag). After that I should be in a position to make a firm recommendation. Snow is proposing that a meeting of the Board of A.I.O.C. should be called for Tuesday, July 27.

3. One item (valued at £12 millions) which the Persians are using to offset the figure of £105 millions mentioned in my telegram No. 787 is the gold clause claim which they have reduced but not withdrawn. I have warned them that we cannot possibly accept a specific reference to any payment on account of gold clause but in view of the Iraq precedent I assume you would see no objection to a general payment covering this and other items, all unspecified.

4. The Persians know all about Iraq.

EP 15315/43

No. 61

DISCUSSION IN LONDON BETWEEN ANGLO-IRANIAN OIL COMPANY AND HER MAJESTY'S GOVERNMENT

Mr. Eden to Sir Roger Stevens (Tehran)

(No. 759. Secret)
(Telegraphic)

*Foreign Office,
July 24, 1954.*

Your telegram No. 792 [July 23: Compensation].

A.I.O.C. discussed position with us to-day. They said they regarded the Persian offer as derisory. But at least it admitted the principle that a net payment was due to the Company. Further, the offer was made up of two components, first, payment for the distribution facilities, and second a net sum covering claims and counter-claims.

2. The Company then asked two questions:—

(a) Would it be useful tactics to suggest to the Persians that their offer was so low that recourse should be had to arbitration to decide what figure should be paid on account of the second component? Any such suggestion would have to be on the basis that the principle of payment had been accepted and that what remained was to obtain an impartial ruling on the figure. There would be no question of an open-ended arbitration, nor would payment in respect of the first component be in issue.

(b) Was there any possibility of inducing the Americans to tell the Persians that in their view the offer was too low?

3. We replied that on both counts we were unable to give an immediate reply. The question whether recourse should be had to arbitration was one which we should need to submit to Ministers. As for the possibility of American support, our impression was that there was little hope but that we would seek your advice. The recommendation forecast in paragraph 2 of your telegram under reference will no doubt cover this.

4. Your paragraph 4. We see no objection. Presumably tax on oil supplies will not be included in other items referred to (compare paragraph 10 of Armstrong's letter dated July 8).

SECRET

EP 15315/44

No. 62

PERSIAN OFFER OF £25 MILLIONS

Sir Roger Stevens to Mr. Eden. (Received July 26)

(No. 804. Secret)
(Telegraphic)

*Tehran,
July 26, 1954.*

My telegram No. 792 and your telegram No. 759: Compensation.

After three and a half hours of tense debate last night, Amini came up with an offer of £25 millions. Before doing so he had said that if his earlier offer was unacceptable he would have to lay the whole question before his Government. He would find it necessary to give them the full story of claim and counter-claim and to report that the only idea of an equitable payment which he had been able to extract from the United Kingdom delegation, viz. £100 million, appeared to him extortionate. He would have to tell his colleagues (and no doubt also the Shah) that he personally could not recommend anything higher, though others who succeeded him might think differently.

2. Both Snow and I are satisfied that Amini meant what he said, and is genuinely convinced that any higher figure would endanger the whole agreement. We consider therefore that there is no prospect of increasing the Persian bid by negotiations with Amini. I am seeing Entezam this morning on other matters and will telegraph further if he gives me any reason to modify this view.

3. If the sum offered is not acceptable the only recourse would be to arbitration. We have of late deliberately avoided mentioning this awkward subject to the Persians, but it seems highly improbable from remarks made by them in earlier discussions, that they would accept limited arbitration along the lines mentioned in your telegram under reference.

4. We have considered the possibility of invoking American assistance. I cannot feel certain that at this stage Henderson would act without instructions from Washington, which he might well not get. The mere fact of asking for them would possibly lead to embarrassment. Moreover, I do not believe that his intervention would be fruitful unless (conceivably) he was able to name a figure, within easy range of £25 millions, which he believed we would be prepared to accept. If it were possible to name such a figure I might just as well do it myself with some prospect of Henderson's personal support.

5. Snow thinks, that if I am authorised to accept the £25 millions offer, I should propose payment over ten years beginning at the end of the second year. This would presumably have to be cleared with the United States Government in view of your telegram No. 1069 Saving to Washington, paragraph 3. If you approve the proposal, I should like authority to put it to the Persians first. I should also like discretion to go to twenty years if absolutely necessary.

6. We are saying nothing to the Press and have asked the Persians to do likewise.

EP 15315/44

No. 63

HER MAJESTY'S GOVERNMENT AND A.I.O.C. REACTION TO PERSIAN OFFER

(1)

Mr. Eden to Sir Roger Stevens (Tehran)

(No. 797. Secret)
(Telegraphic)

*Foreign Office,
July 28, 1954.*

Your telegram No. 804 [of July 26: Compensation].

Your success in getting the Persians to increase their offer to £25 millions has made progress possible.

2. It has now been decided that, subject to the agreement of the Board of A.I.O.C. which meets to-morrow, you should be instructed to do your best to

SECRET

obtain a net payment by Persia of £30 millions, but given discretion to accept £25 millions.

3. Neither Her Majesty's Government nor A.I.O.C. want arbitration.

4. The proposal to refer in the Compensation Agreement to the Persian claim to nearly £50 millions under the 1949 Agreement has led to considerable discussion here. If it is to help A.I.O.C. from the tax point of view it must take the form of a binding undertaking on their part to pay the sums in question to the Persian Government. It could not therefore be kept secret and, if it was expressed as a retrospective payment, might have serious repercussions in Iraq, Kuwait and Saudi Arabia, all of whom have outstanding claims with the oil companies for retrospective payments. It seemed to us, however, that this danger could be minimised if the payment were made dependent upon the coming into force of the main oil agreement and were linked more closely with the other compensation provisions, i.e., if the Agreement took the form of an undertaking by Persia to pay compensation of £75 millions (or £80 millions) over a period of years, with a parallel undertaking by A.I.O.C. to pay the £50 millions in question over the same period. (It would be understood that the payments would be set off each year so that the only money actually passing would be the net payment from Persia to the A.I.O.C.). It appeared to us that this would have the additional advantages of (a) producing a much larger gross figure for compensation, and (b) showing generosity on the part of the Company in making the payments which they had been prepared to make in 1949.

5. The Company's reaction to this suggestion was favourable and Her Majesty's Government have approved it, provided:

- (a) A.I.O.C. obtain the agreement of their partners in the Consortium (thus giving them a chance to consider possible repercussions in the other countries);
- (b) the Persians do not raise serious objection; and
- (c) A.I.O.C. agree that if the agreement of all concerned is not obtained within a week they will drop the idea of referring to the 1949 Agreement at all. (This was on the assumption that the Consortium negotiations would be concluded within a week.)

6. The Board of A.I.O.C. will decide this point also to-morrow and the Company are meantime consulting their partners in the Consortium through their representative in New York.

7. All the above is for your own information only but you may tell Snow in confidence. See my immediately following telegram.

EP 15315/44

(2)

Mr. Eden to Sir Roger Stevens (Tehran)

(No. 798. Secret)
(Telegraphic)

*Foreign Office,
July 28, 1954.*

My immediately preceding telegram [of July 28: Compensation].

I agree that you should propose payment over 10 years. The Board of A.I.O.C. will consider to-morrow when this payment should begin.

2. In view of the agreement with the United States Government in my telegram No. 1069 Saving to Washington, it is essential that the Americans should hear of this first from you. Please therefore approach Henderson and explain the situation reported in paragraphs 2 and 3 of my immediately preceding telegram, and say that in view of the very small figure, as compared with the £100 millions for which we had all hoped, it would be of great assistance to A.I.O.C. if they could obtain payment over 10 years. You should say that you have therefore been instructed to mention this to your United States colleague and then to try to obtain it from the Persians. You should make your approach in such a way that Henderson will be likely to agree.

3. We shall be speaking to the United States Embassy here on the same lines.

SECRET

EP 15315/44

(3)

Mr. Eden to Sir Roger Stevens (Tehran)

(No. 806. Secret)
(Telegraphic)

*Foreign Office,
July 30, 1954.*

My telegram No. 797 [of July 28: Compensation].

The Board of A.I.O.C. and all the other companies have now approved these proposals.

2. We will reply very shortly to your telegram No. 843.

EP 15315/44

No. 64

METHOD OF MAKING PAYMENTS

(1)

Mr. Eden to Sir Roger Stevens (Tehran)

(No. 808. Secret)
(Telegraphic)

*Foreign Office,
July 30, 1954.*

My telegram No. 806 [of July 30: Compensation].

For Inland Revenue purposes there must be a binding obligation upon A.I.O.C. to make the payments in question to Persia. A.I.O.C. must, therefore, ensure that there is an equally binding and indeed prior obligation upon Persia to make the same payment (plus the amount of net compensation) to them.

2. It is not essential either for Inland Revenue or for A.I.O.C. that this agreement should be published or that there should be any subsequent public reference to it. An unpublished agreement between A.I.O.C. and the Persian Government in the terms of paragraph 1 above would, therefore, be satisfactory to A.I.O.C. The draft would have to be approved by the Inland Revenue.

3. On the other hand a secret agreement would lose the advantages referred to in paragraph 4 of my telegram No. 797. And there would be a danger of subsequent leakage which the Persians might use as an excuse to default on their compensation payments.

4. I should, therefore, prefer if possible the arrangements in paragraphs 4 and 5 of my telegram No. 797. The following arguments might be used with the Persians:—

- (a) They themselves suggested (your telegram No. 760) that if A.I.O.C. make this payment to Persia, their reciprocal payment should be over a period of years, thus linking it with their compensation payment.
- (b) The higher gross figure of compensation would improve Persia's credit with the world.
- (c) The Persian Government would be free to stress to its own public the small net figure and the fact that they had secured payment of the sums due in the supplemental agreement.

5. If, however, the Persians will not agree to paragraphs 4 and 5 of my telegram No. 797 you are authorised to fall back on the arrangement in paragraphs 1 and 2 above.

6. Please keep your United States colleague informed.

EP 15315/44

(2)

Mr. Eden to Sir Roger Stevens (Tehran)

(No. 810. Secret)
(Telegraphic)

*Foreign Office,
July 30, 1954.*

My telegram No. 808 [of July 30, paragraph 2, first sentence: Compensation].

Inland Revenue have now informed A.I.O.C. that although unpublished agreement as such might be acceptable, it is not certain that effect could be given to it for tax purposes if effect is not also given to it in A.I.O.C.'s published accounts.

2. This reinforces our preference for the proposal in paragraphs 4 and 5 of my telegram 797.

SECRET

EP 15315/57

(3)

Sir Roger Stevens to Mr. Eden. (Received July 31)(No. 851. Secret)
(Telegraphic)*Tehran,
July 31, 1954.*

Your telegrams Nos. 797, 798 and 806.

Before meeting the Persians last evening, I spoke to Henderson about the period of payment. He saw no objection to our going to [group undecipherable] ten years, but expressed the hope that payment should not begin for three years.

2. At the meeting with the Persians, I opened by stating that Her Majesty's Government and the companies were ready to accept £30 millions payable over five or six years. I pointed out that this would involve rate of payment similar to that in our original proposal. Amini at once stated that any figure in excess of £25 millions was impossible. After some discussion the Persian delegation proposed £25 millions payable over ten years, beginning January 1, 1957; I accepted the amount and ten year's period, but said that I must refer their proposal on the moratorium. I have since received your telegram No. 811 and will accept this last proposal at meeting scheduled for 6.30 a.m. G.M.T., Sunday, August 1.

EP 15315/58

(4)

Sir Roger Stevens to Mr. Eden. (Received August 1)(No. 869. Secret)
(Telegraphic)*Tehran,
August 1, 1954.*

At a further meeting on compensation this morning Amini made it quite clear that he could not accept any formula which specifies £76 millions [group undecipherable ? as] over a period of [group undecipherable]. After considerable argument and explanation of our difficulties, he was persuaded provisionally to accept formula containing total figures of £115 millions and £90 millions. Full text of aide-mémoire is contained in my immediately following telegram. Paragraph 7(c) remains to be discussed further between lawyers. We will let you know when it is finally agreed here.

2. I hope that this text will be acceptable to you. Unless paragraph 4 can be agreed on a basis of gross figure, the only possible alternative will be to revert to the proposal in your telegram No. 743, which mentions £51 millions and net figure of £25 millions only. This would presumably be less satisfactory from the point of view of repercussions elsewhere, but I should like discretion to propose it if Amini should have second thoughts about gross figures. If this discretion cannot be given, then I must ask for full and detailed explanation, for the information of the Anglo-Iranian Oil Company's representative here, of why mention of gross figures is necessary.

3. Amini naturally considers that it will be necessary for him to explain gross figures. Indeed, his objection to the mention of £76 millions was that it would be so hard to explain. He has, however, agreed that in any explanations he will only make use of the following:

£105 millions for losses and damages to Anglo-Iranian Oil Company;
£10 millions for internal distribution assets; £30 millions for disruption of Iranian economy and £9 millions for miscellaneous claims not (repeat not) to be specified. In connection with the £30 millions he would say, if pressed, that this includes allowance for inability of N.I.O.C. to sell greater quantities of oil in the past three years. In this event he would not suggest that any specific amount inside £30 millions had been agreed for this allowance.

5. I shall be grateful for very early instructions regarding text of aide-mémoire.

SECRET

EP 15315/59

(5)

Sir Roger Stevens to Mr. Eden. (Received August 1)(No. 870. Secret)
(Telegraphic)*Tehran,
August 1, 1954.*

My immediately preceding telegram.

Following is "aide-mémoire on compensation settlement."

Whereas [groups undecipherable] arrangement with the Consortium necessitating an agreement on question of compensation the two delegations have given careful consideration to the financial matters outstanding between the Iranian Government and the Anglo-Iranian Oil Company Limited.

2. They have had regard to arrangement made between the Iranian Government and the Consortium, which includes provision in respect of use [group undecipherable] assets, in consideration of which the Anglo-Iranian Oil Company Limited relinquishes all claims in respect of the said assets.

3. They have made a meticulous examination of all claims and counter-claims of both sides.

4. They have taken into account value of the internal distribution of assets, the Kermanshah refinery and Naft-Ishah oilfield and disruption of enterprise of the Anglo-Iranian Oil Company Limited on the one hand, and the disruption of Iran's economy arising out of failure of the two parties to reach a settlement following upon nationalisation of Iranian oil industry in 1951 on the other hand.

5. They have also taken into account Iranian Government's view that in equity they should receive upon ratification of the new agreement with the Consortium additional sum which would have accrued to them under the Supplemental Agreement of 1949 if it had come into force, and the Anglo-Iranian Oil Company have agreed to pay £51 millions in respect thereof as herein provided.

6. Having regard to the foregoing it has been agreed that the sum of £115 millions shall be paid by Iran to the A.I.O.C. Limited and that the sum of £90 millions including the said sum of £51 millions shall be paid by the A.I.O.C. Limited to Iran, thus arriving at a net amount payable by Iran to the A.I.O.C. Limited of £25 millions. This sum shall be paid by Iran in ten equal annual instalments beginning on January 1, 1957. Settlement may be effected by down instalments [group undecipherable] set off against tax liability of trade company to be established by the A.I.O.C. Limited under the Consortium Agreement.

7. This payment is in full and final settlement of all claims and counter-claims by Iranian Government and N.I.O.C. on the one hand and by the A.I.O.C. Limited on the other in respect of any matters prior to the effective date of the Consortium Agreement. The A.I.O.C. Limited give in favour of Iranian Government and N.I.O.C. a formal release from all claims and demands of company in respect of any such matters. The Iranian Government and the N.I.O.C. in their turn give the following formal releases and indemnity in favour of the A.I.O.C. Limited—

- (a) a release from all claims and demands of the Iranian Government and N.I.O.C. in respect of any matter prior to effective date of the Consortium Agreement;
- (b) an indemnity against any liability in respect of any claims and demands that may be made against the A.I.O.C. Limited by third parties arising out of oil operations in Iran of the said company;
- (c) an indemnity in respect of any claims and demands arising directly or indirectly from events of the 1951 Agreement be made against the A.I.O.C. Limited by third parties, but excluding claims arising by reason of A.I.O.C. Limited activities in bringing to the notice of intending purchasers and others the dispute which has arisen in regard to the title to Iranian Oil and in otherwise seeking to defend their legal rights.

8. The Compensation Agreement and Consortium Agreement shall come into force together.

SECRET

EP 15315/61

(6)

Sir Roger Stevens to Mr. Eden. (Received August 2)(No. 886. Secret)
(Telegraphic)*Tehran,
August 2, 1954.*

My immediately preceding telegram.

At the same meeting Amini suggested that from his own point of view it would be desirable that the final Compensation Agreement should be incorporated in the Consortium Agreement, thus eliminating possibility of separation as regards ratification.

2. This suggestion is superficially attractive, but will require examination by lawyers, and will probable present drafting difficulties, since A.I.O.C. alone will be a party to the compensation section of any combined Agreement.

3. For the purpose of the aide-mémoire, however, we agreed on the following wording in substitution of paragraph 8 in my telegram No. 870:—

"The wording of this aide-mémoire is not intended to represent necessarily the wording to be used in the Compensation Agreement, which is to be satisfactory to the lawyers from both sides, and which will come into force together with, and form an integral part of, the Consortium Agreement."

4. Unless you let me know by emergency telegram I will assume the above has your approval.

EP 15315/61

(7)

Mr. Eden to Sir Roger Stevens (Tehran)(No. 831. En clair)
(Telegraphic)*Foreign Office,
August 2, 1954.*

Your telegram No. 886.
No objection, provided Page agrees.

EP 15315/67

(8)

Sir Roger Stevens to Mr. Eden. (Received August 3)(No. 903. Secret)
(Telegraphic)*Tehran,
August 3, 1954.*

My telegram No. 897.

Amini has accepted the formula contained in my immediately following telegram which we submitted to him on basis of your telegrams Nos. 743 and 832, paragraph 4, first sentence. He still sees difficulty, however, in there being no record for his own purpose as to how £25 millions is arrived at. He will write the company a letter (to be drafted later) setting out his version of this (in terms to be agreed by us) to which the company would acknowledge in a way which did not commit them to agreement with detailed figure.

2. I am afraid our efforts, after your telegram No. 840 had arrived, to get him to accept a redraft expressing more clearly the new point in paragraph (b) of that telegram were unsuccessful. He simply said that the statement was untrue and he could not undertake to justify it.

3. I hope I may be authorised to accept the proposals in paragraph 1 above.

SECRET

EP 15315/68

(9)

Sir Roger Stevens to Mr. Eden. (Received August 3)(No. 904. Secret)
(Telegraphic)*Tehran,
August 3, 1954.*

My immediately preceding telegram.

Having regard to foregoing it has been agreed that the Anglo-Iranian Oil Company, Limited, shall pay to the Iranian Government the additional sums referred to in preceding paragraph, and such sums totalling £51 millions will in turn be set off against the amount payable by the Iranian Government to the Company representing the balance struck after examination of other claims and counter-claims. In result, a net amount is payable by Iranian Government to the Anglo-Iranian Oil Company, Limited, of £25 millions free of interest. This sum shall be paid by the Iranian Government in ten equal annual instalments beginning on January 1, 1957.

EP 15315/67

(10)

Mr. Eden to Sir Roger Stevens (Tehran)(No. 849. Secret)
(Telegraphic)*Foreign Office,
August 3, 1954.*

Your telegram No. 903.

You may accept formula in your telegram No. 904 provided that company's counsel in Tehran agrees that it will in fact result in net payment of £25 millions to A.I.O.C. and no (repeat no) physical payment by company to Iran.

EP 15315/70

(11)

Sir Roger Stevens to Mr. Eden. (Received August 4)(No. 910. Secret)
(Telegraphic)*Tehran,
August 4, 1954.*

This is to confirm the text which we are preparing for initialling of the aide-mémoire on the compensation settlement. It follows that in my telegram No. 870 with the following exceptions:—

Paragraph 5.—Ends at the word "force".

Paragraph 6.—As in my telegram No. 904, followed by the last sentence of paragraph 6 in my telegram No. 870 beginning "settlement may be effective" down to "under the consortium agreement."

Paragraph 7 (c).—Is omitted altogether. Substance is being taken care of in the consortium agreement and the company lawyers are quite happy on this point.

Paragraph 8.—As in my telegram No. 886 paragraph 3.

EP 15315/70

(12)

Mr. Eden to Sir Roger Stevens (Tehran)(No. 870. En clair)
(Telegraphic)*Foreign Office,
August 4, 1954.*

Your telegram No. 921.

I agree that no further amendments are necessary.

SECRET

EP 1111/7

No. 65

PAYMENT RELATIONS

(1)

Mr. Eden to Sir Roger Stevens (Tehran)(No. 262. Secret)
(Telegraphic)*Foreign Office,
March 20, 1954.*

As you know, the proposed oil settlement contemplates payment of Persia's oil revenue in sterling. We have been considering what complementary intergovernmental arrangements should, if possible, be negotiated between the United Kingdom and Persia. Briefly, we should be prepared to give Persia:—

- (i) full transferability on the new basis (see my telegrams No. 245 and 246 [of March 17: Unification of non-resident sterling]);
- (ii) a reasonable measure of convertibility (i.e., we should be prepared to provide dollars from the central reserves to meet those of her essential requirements which could not be met as readily or as cheaply from sterling sources).

2. This resembles the treatment which Persia received up to 1951 under the "Memorandum of Understanding," though we should hope to secure that the criterion of what is essential under 1 (ii) would be more strictly observed than was always the case before 1951. The Memorandum of Understanding also provided a guarantee in terms of gold of the value of Persia's sterling holdings and this we should not (repeat not), be prepared to revive since

- (i) such guarantees are contrary to all our present policy in regard to sterling balances;
- (ii) there would doubtless be unfavourable repercussions in neighbouring oil-producing sterling area countries.

3. Our hope is that Persia will be prepared to accept a new arrangement on these lines though her views may differ from ours on the size of her dollar entitlement. Our present intention is to explore the ground with the Persians as soon as the oil talks begin, and Serpell is standing by to come to Tehran for this purpose. We should be grateful for your early views on these proposals, both of policy and procedure. Please see my immediately following telegram.

EP 1111/7

(2)

Mr. Eden to Sir Roger Stevens (Tehran)(No. 263. Secret)
(Telegraphic)*Foreign Office,
March 20, 1954.*

My immediately preceding telegram.

Our thoughts on a payments settlement with Persia as summarised in my immediately preceding telegram were explained to Harley, United States Treasury representative in London, on March 19. He was told that this course appeared to us, after prolonged consideration, to be the most appropriate, having regard to Persia's requirements and our own need to minimise as far as possible any balance of payments disadvantages resulting from the return to Persia. To go further or to pursue a different course would be very difficult for us, but we should welcome any observations which the United States Government might wish to make at this stage.

2. Other points on which emphasis was placed were:—

- (a) Our concern lest Persia should appear to do better in the payments field than her neighbours. (This was particularly relevant to the questions of the gold guarantee and the provision for convertibility.)
- (b) Our intention to explore the ground thoroughly with the Persians before coming to any firm conclusion.
- (c) The political importance of reaching a payments settlement with Persia which adequately protected our reserves.

SECRET

3. Harley replied that, so far as he knew, the United States Government had no particular views on this matter at this stage. He would expect that the United States Government would "go along with" the proposals at any rate until they met an obstacle, when their attitude would no doubt depend on the circumstances. He mentioned, however, that Henderson had expressed some concern at the proposals for sterling payments by the Consortium. The United States Embassy in London had replied that they understood that we were ready to give Persia a wide measure of transferability, together with a certain measure of convertibility. Henderson had then said that his concern was partially allayed.

4. By his questions Harley also seemed to show that the Americans here have been thinking of a possible alternative under which the Consortium (or the United States members of it) would pay over to the Persian Government the amount of dollars which Her Majesty's Government were ready to furnish. Such a step might, it was suggested, avoid the difficulties which Henderson appeared to have in mind of obliging the Persian Government to come to Her Majesty's Government for almost its entire supply of dollars. The disadvantages to Her Majesty's Government of such a course as compared with our own proposals were pointed out to Harley.

5. We understand that Harley is telegraphing Washington in order to be able to give comments on our statement. He will be copying his message to Henderson, with whom you may therefore wish to discuss this matter in the light of this telegram and its predecessor, and also of the Treasury paper O.M.E. (54) 9.

EP 1111/8

(3)

Sir Roger Stevens to Mr. Eden. (Received March 22)(No. 220. Secret)
(Telegraphic)*Tehran,
March 22, 1954.*

Your telegrams Nos. 262 and 263: payments relations with Persia.

O.M.E. (54) 9 did not reach me in last week's bag, and Henderson has not yet had Harley's telegram. I have, however, discussed your proposals with him. The following takes account of, and where necessary indicates, his views.

2. Provided the schemes do not differ too drastically from the treatment under the memorandum of understanding, I do not think, and neither does Henderson, that they should lead to any insurmountable difficulty. Indeed the Minister of Finance specifically told him two days ago that transferability and convertibility arrangements before 1951 were extremely favourable to Persia. I do not think demand for more strict observation of essentiality criteria would be regarded as unreasonable, as long as it is clear that it is the Persians and not we who are judge of what is essential. Any arrangement which involved referring to individual items would be rejected. I am not quite clear how dollar entitlement referred to in paragraph 3 of your telegram No. 262 would operate, but presumably only as a ceiling. I think that the Persians may be reluctant to forgo exchange guarantee which was one of Ebtehaj's successes, but the arguments against it are so powerful that I have no doubt they will accept an arrangement without it.

3. Henderson's concern was largely set at rest by your telegram No. 262. He had not previously heard of the suggestion referred to in paragraph 4 of your telegram No. 263, realising what difficulties it might create for us, and said he certainly would not want to press it from here. He pointed out that Persia has entered into a number of commitments with Germany, Japan and elsewhere, without seeing clearly where the foreign exchange is coming from, and that the Persians may well ask for the right to include these prior commitments among Persia's essential requirements. His view was that we should be well advised to grant this request.

4. As regards procedure I consider, and Henderson agrees, that the moment to start payment agreement talks is *after* it has been made absolutely clear to the Persians by the oil companies' representative, and if necessary himself and myself (not to mention if possible the French), that Persian revenue from oil will be paid by the consortium in sterling and nothing but sterling. Once that has been established I am sure that the sooner payment arrangements can be negotiated the better. I would welcome Serpell at any time.

5. See also my immediately following telegram.

SECRET

EP 1111/25

(4)

Sir Roger Stevens to Mr. Eden. (Received April 22)(No. 367. Confidential)
(Telegraphic)*Tehran,
April 22, 1954.*

Payment Arrangements.

Some progress was made at meeting to-day between Amini, [grps. undec.] Samii and Serpell and Titchener. The Persians developed at considerable length their needs on both political and economic grounds for gold guarantee. We gave a polite but firm refusal on similar grounds. Amini eventually suggested an arrangement under which Persia should receive a right to sell sterling for dollars of an amount equal at least to 40 per cent., (i.e., a proportion equal to American share of Consortium) of Persia's total sterling receipts. After prolonged further discussion Amini's [grp. undec. ? price] was reduced to the following.

- (a) Persia would have the right to sell sterling for dollars up to a figure *not exceeding* 40 per cent. of Persia's sterling oil revenue.
- (b) Persia would use this facility only for the purchase of goods or services essential to Persia and would not make use of the facility for "potting up" dollars.
- (c) Persian Government would undertake to exercise all due economy in their use of dollars and would so instruct Bank Melli.
- (d) there would be no trade discrimination on payment grounds against sterling area.
- (e) Persia would make use of her own dollar earnings before calling on sterling area reserves within bounds of (a) above. (Amini added, however, that he would expect these dollar earnings to fall off to some extent.)

2. Both sides emphasised that an arrangement on this basis must be subject to further consideration and on our side reference back to London. The intention is that we and Bank Melli shall endeavour to set the position down in black and white with more precision, albeit always on a hypothetical basis. The procedure is all the more desirable since to-day's conversation was conducted in French, though the more important points were clarified in English with Nasser.

3. The following points are worthy of notice:—

- (i) Amini said that the Persian Government had perhaps been somewhat hasty in saying that sterling was "unacceptable." From the remainder of the conversation we gained the impression that the Persian Government is, in fact, reconciled to the idea of payment by Consortium in sterling.
- (ii) the discussion, though somewhat exhausting, was conducted in a very friendly atmosphere.
- (iii) We were able to make some play with the fact, of which Amini was apparently unaware, that previous Memorandum of Understanding had not been published.
- (iv) as discussed to-day 40 per cent. "ceiling" would apply to sterling purchases of oil revenue and not to Persia's total sterling receipts from all sources. This should restrict the United Kingdom's maximum dollar liabilities to about \$784 millions per annum by 1956. On the other hand it is not impossible that by "oil revenue" Persians will later say they wish to include sterling paid by Consortium for rials needed for local expenditure. We should naturally try to avoid this, but should be grateful for instructions on this point.

4. Amini expressed the view that it would be some time before he would be ready to go to his colleagues in the Government with a proposition on these lines. Presumably, like ourselves, he does not wish to be finally committed on any particular aspect of the negotiations except as part of a convenient arrangement.

5. We should be grateful for your early comment on the desirability of concluding in principle an agreement on the lines outlined in paragraph 1 above. Serpell's letter of April 22 to Armstrong which left here by yesterday's bag, seeks advice on certain other points of importance in the draft and we should be grateful if comment on these too could follow as soon as possible.

SECRET

EP 1111/25

(5)

(No. 399. Confidential)
(Telegraphic)*Foreign Office,
April 24, 1954.*

Your telegram No. 367 [of April 2: Payments Arrangements].

You have obviously made excellent progress. The following are our preliminary reactions. Final views must be reserved until we see the text referred to in your paragraph 2.

2. We think that an agreement on the lines of your paragraph 1 would be satisfactory from our point of view. We suggest that all the details of Persia's convertibility facilities (including the 40 per cent. ceiling) should be kept to an unpublished exchange of letters, and that what is published whether in the formal agreement or otherwise should merely be a statement to the effect that Persia would have facilities for converting sterling into dollars for the purchase of essential goods or services. Publishing the details might create the impression in Persia that the Persian Government had got something less than they might have had and thus lead to pressure upon us to increase the percentage. It might also lead to repercussions in other neighbouring countries, which do not convert as much as 40 per cent. of their sterling oil revenues.

3. Your paragraph 3 (iv). We agree that you should try to limit conversions to 40 per cent. of the sterling paid to the Persian Government by the Consortium, i.e., excluding the sterling proceeds of rials purchased by the Consortium for local expenditure; but we should not wish to make this a breaking point if the Persians insisted on it and the arrangements were otherwise satisfactory.

4. Serpell's letter of April 21 just received. Comments will be telegraphed as soon as possible.

EP 1111/28

No. 66

"HEADS OF AGREEMENT"

(1)

*(Arrangement between Persia and the United Kingdom on the Payments Question)**Sir Roger Stevens to Mr. Eden. (Received April 26)*(No. 386. Confidential)
(Telegraphic)*Tehran,
April 26, 1954.*

My immediately following telegrams give text of a letter and enclosure which, if you agree, Serpell proposes to send to Nasser.
Grateful for your very early comments.

EP 1111/29

(2)

Sir Roger Stevens to Mr. Eden. (Received April 26)(No. 387. Confidential)
(Telegraphic)*Tehran,
April 26, 1954.*

My immediately preceding telegram.

Text of covering letter is as follows:—

At the conclusion of our meeting on the payments question on April 22, at which His Excellency the Prime Minister, Dr. Amini, was present, I undertook to draft in the light of discussions, the "Heads of Agreement" of an arrangement between Iran and the United Kingdom on the payments questions. In our discussions we assumed that, following an agreement between the Iranian Government and the proposed international consortium of oil companies, the Iranian Government would receive in sterling its revenues from the sale of Iranian oil.

The draft "Heads of Agreement" should, it was agreed, be regarded as provisional and confidential.

SECRET

The "Heds of Government" which I have now drafted on the [group undec. ? basis] described above, are set out in the enclosure to this letter. I should be very grateful to know whether, in the view of Dr. Amini and yourselves, they would form the basis of a satisfactory understanding on payment. Mr. Titchener and I will of course be glad to discuss this draft with you should you wish.

If the draft "Heds of Agreement" are satisfactory, I would then propose to prepare more formal document which could be exchanged in due course between the Government of Iran and the United Kingdom or Bank Melli, Iran, and the Bank of England. The final signature would, no doubt, take place when an agreement on the lines indicated in paragraph 1 of this letter has been signed between Iran and the international consortium.

We should be grateful to know your views on the sort of formal document which would be required. During one of our earlier conversations it was suggested that a suitable arrangement might be a published intergovernmental payments agreement in general terms, with an unpublished exchange of letters between the Central Banks, setting out in detail the "Convertibility Formula" (paragraph 4 "Heds of Agreement"). An unpublished exchange of letters might also be a suitable way of dealing with the winding up of any residual guarantee on the remainder of the sterling balance held by Bank Melli on November 20, 1951 (paragraph 7 of "Heds of Agreement"). The understandings mentioned in paragraphs 5, 6 and 8 of "Heading of Agreement" might similarly be dealt with in unpublished exchange letters between the Governments of Iran and the United Kingdom.

EP 1111/30

(3)

Sir Roger Stevens to Mr. Eden. (Received April 26)

(No. 388. Confidential)
(Telegraphic)

*Tehran,
April 26, 1954.*

Reference my previous telegram.

Following is text of enclosure:—

Confidential Draft:—

"Heds of Agreement."

All transactions between Iran and the Sterling Area shall normally be settled in sterling.

2. Iran will maintain appropriate cross-rate between sterling and United States dollars.

3. United Kingdom will take necessary steps to give Iran full "transferable account" facilities, including transfer of sums from registered accounts to accounts of persons resident in Iran.

4. United Kingdom will take the necessary steps for Iran to be able, in each twelve months' period, to sell sterling for dollars up to a figure not exceeding 40 per cent. of the total revenues received in sterling during that period by the Iranian Government from sale of Iranian oil.

5. Iran will use facilities under paragraph 4 above only for the purpose of goods or services essential to Iranian economy.

6. The necessary steps will be taken by Iran for use of Iran's own earning's of dollars from other sources before calling on facilities made available by the United Kingdom under paragraph 4 above.

7. Any guarantee of any part of Iran's sterling balances which may still exist under paragraph 3 of the Memorandum of Understanding of October 5, 1950, and Article 8 of the Financial Agreement of May 26, 1942, will be terminated.

8. Iran will not discriminate on payment grounds against goods or services originating in the sterling area.

9. The foregoing arrangements will be reviewed annually unless the two Governments decide otherwise.

SECRET

EP 1111/32

(4)

Mr. Eden to Sir Roger Stevens (Tehran)

(No. 425. Confidential)

Foreign Office,

May 1, 1954.

Your telegrams Nos. 386, 387, 388 [of April 26] and No. 392 [of April 27: Draft Heads of Agreement].

My immediately following telegram gives our detailed comments on the points to be made in the draft Heads of Agreement. Below are our general views on the form of the Agreement and its scope.

2. We do not wish to press for the financial understanding to take the form of a Payments Agreement on the present model. In particular we think that to write in anything on the lines of your draft Article 2 (dealing with the cross-rate) would not be appropriate in present circumstances; we should prefer to rest on the formal position of Persia's obligations as a member of the I.M.F.

3. Our preference on the whole is for the main agreement to take the form of a published Exchange of Letters between Governments, though if the Persians want a formal intergovernmental financial agreement we should not object.

4. We realise that the Persians will want to have something published about their convertibility facilities and we should see no objection to the inclusion in the published documents of your Articles 6 and 8, together with a general statement based on your Articles 4 and 5, but omitting the percentage (see my immediately following telegram). We still attach great importance to the non-publication of the percentage and think it possible that if everything else were published Amini might be content for this to be in a secret Exchange of Letters. But he may insist on publication, and there is always the danger of leakage. Subject to your views, it seems better to drop the percentage idea altogether, since it appears that by the time oil production reaches its peak Persia's likely dollar drawings would probably not exceed 40 per cent. anyway.

5. Your telegram No. 392 makes clear that the problem of the "residual guarantee" is likely to be a major point of friction, both in the present financial discussions and in the future, for unless it is wound up there will always remain this pocket of disputed sterling at the bottom of the barrel. We think it important not to give Nasser any grounds for thinking that Her Majesty's Government are trying to back out of their obligations, and we suggest that the best plan is to attempt to settle the "residual guarantee" point once and for all as soon as possible. It would seem from your telegram No. 392 that we shall only succeed in doing this with Persian consent by making a fairly generous offer, and it will be necessary to consult Ministers on this. In the meantime, therefore, you should say no more to the Persians about the "residual guarantee" than that you have referred the question to London.

6. The above will, of course, involve a considerable revision of the covering letter to Nasser. We leave this to you.

EP 1111/32

(5)

Mr. Eden to Sir Roger Stevens (Tehran)

(No. 426. Confidential)
(Telegraphic)

Foreign Office,

May 1, 1954.

My immediately preceding telegram [of May 1. Draft Heads of Agreement]. Following are detailed comments on Heads of Agreement.

Your Article 1.—Satisfactory.

Your Article 2.—For reasons given in my telegram under reference this should be deleted.

Your Article 3.—Insert "rights of" after "including".

Your Articles 4 and 5.—These should be combined in a single Article, the reference to a limitation to 40 per cent. being deleted. Form of words we should like is:—

"United Kingdom will take necessary steps to enable sterling on the Transferable Account(s) of the Bank Melli, Iran, to be transferred to Canadian

SECRET

51653

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or American Accounts in respect of current transactions between Persia and the countries to which Canadian or American Accounts apply, on understanding that Iran will ask for such transfers only for goods or services which cannot be obtained on equivalent terms elsewhere."

Your Article 6.—Satisfactory.

Your Article 7.—This should be deleted.

Your Articles 8 and 9.—Satisfactory.

2. In Serpell's letter to Armstrong of April 21 advice was sought on text to be used in Article 3. This follows by bag.

EP 1111/34

No. 67

PROBLEM OF RESIDUAL GUARANTEE

Sir Roger Stevens to Mr. Eden. (Received May 3)

(No. 431. Secret)
(Telegraphic)

*Tehran,
May 3, 1954.*

My telegram 425: Payments.

My paragraph 3. Serpell saw Nasser to-day but regret that he was unable to make any headway on cancellation of residual guarantee. Nasser clearly, however, said he did not (repeat not) feel this need to be a matter of any political difficulty. In his view Her Majesty's Government and the Bank of England should keep their word, either by continuing the guarantee as at present (in which case little more need be said) or alternatively by consolidating the outstanding amount guaranteed with the total referred to in paragraph 2 of your Camer 4 of April 28.

2. After further discussion, Nasser said he accepted that the amount guaranteed should be the smallest amount held in Persia's sterling balance since the expiration of the Memorandum of Understanding in November 1951. This is an improvement on his previous position, but he still claims that the amount guaranteed should include Persian holdings of other sterling area currency.

3. Serpell does not feel the possibility discussed in the penultimate sentence of paragraph 2 of my telegram under reference is likely to be a starter, but he did not of course try out the idea at this meeting. His personal view is that the first of Nasser's two suggested alternatives quoted in my paragraph 1 above is the right one to adopt, and I agree.

EP 1111/34B

No. 68

PAYMENTS AGREEMENT—AMERICAN INTEREST

(1)

Sir Roger Stevens to Mr. Eden. (Received May 6)

(No. 451. Confidential)
(Telegraphic)

*Tehran,
May 6, 1954.*

My telegrams Nos. 425 and 431.

There are signs of developing American interest in United Kingdom-Persian payments arrangement, apparently with a view to protection of United States business generally. To be on the safe side I think the sooner we can put our written proposals to the Persians the better. I should be most grateful, therefore, if you would expedite replies to my telegrams under reference so that this may be done on Saturday, May 8.

SECRET

EP 1111/34

(2)

Mr. Eden to Sir Roger Stevens (Tehran)

(No. 447. Confidential)
(Telegraphic)

*Foreign Office,
May 8, 1954.*

Your telegrams Nos. 425, 431, 433 and 451 [payments].

We agree (see paragraph 2 (i) of your telegram No. 425) that Iraq may well be tempted by the generous treatment of Persia to follow Iversen's advice and seek similar terms. But we think that this danger exists with or without the 40 per cent. limit. That after all represents more than twice Iraq's current dollar drawings and such a limitation would scarcely discourage her from leaving the sterling area if she decided that there were advantages in that course.

2. We also take the point in paragraph 3 of your telegram No. 433 about difficulties in the first two years. But we think that in view of the low level of Persia's total oil income in the early stages she may well argue that 40 per cent. will not meet her minimum dollar needs. In that case we might be driven to grant temporarily a higher percentage and this might then be quoted as a precedent. On the other hand, if there were no overriding percentage limit, any concessions we might make in the first two years would probably not commit us thereafter to anything more than meeting Persia's minimum needs.

3. Our apprehensions about the use of the 40 per cent. formula are threefold. First, despite the apparent change of front on Amini's part, the Persians may well be driven to defend their agreement with us by quoting their right to draw 40 per cent. dollars. Second, even if Amini were not publicly to use the figure, there remains the probability of a leakage. Third, once the 40 per cent. figure is agreed it will come to be treated as a minimum instead of a maximum figure. If, as is very possible, it became known, all the Middle East oil countries would come to look on their oil as 40 per cent. "dollar worthy," and take steps to secure the same formula.

4. We realise the difficulties of dropping the formula now. We should not wish it to be represented as a concession (paragraph 2 (ii) of your telegram 425), since we do not want to give Amini the impression that we contemplate that he will in fact need to go above 40 per cent., at any rate when oil production has reached the full figure. Nevertheless we should strongly prefer you to take every opportunity that offers to drop the formula. If however it cannot be dropped, we will accept it provided it is relegated to a confidential exchange of "letters of intention" between Governments placing on record an understanding that Persia will not normally require to transfer to American Account more than 40 per cent. of her annual accruals of sterling, and that she will not make transfers in excess of this figure without prior consultation.

5. We will telegraph shortly on the residual guarantee.

EP 1111/38

No. 69

HEADS OF AGREEMENT

(1)

Mr. Eden to Sir Roger Stevens (Tehran)

(No. 456. Confidential)
(Telegraphic)

*Foreign Office,
May 10, 1954.*

Your telegrams Nos. 464, 465 and 466 [Payments].

We have reviewed the whole matter of the convertibility ceiling and, in the light of your strong recommendation and in particular your view that its existence can be kept secret, we agree that it should be retained.

2. You may now therefore put to the Persians the "heads of agreement" set out in your telegram No. 388, as amended by our telegram No. 426, with the addition, in the Article suggested in our telegram to take the place of your

SECRET

51653

K 2

Articles 4 and 5, of the following words to be inserted after the word "services": "which are essential to the Iranian economy and".

3. In presenting this draft to the Persians you should stress our requirement that the 40 per cent. ceiling should be kept completely secret and suggest that it be embodied in an Exchange of Letters between the two Banks, in which it is put on record that it is not the Persians' intention to use their facilities for converting sterling into dollars in excess of 40 per cent. of their annual sterling revenues from the sale of Iranian oil. (We agree that the formula in paragraph 4 of our telegram No. 447 was too loosely worded in its references to annual accruals of sterling.)

4. The answer to the point raised in your telegram No. 466 is that the expression "asking for" is used in the same sense as in the former Memorandum of Understanding and does not imply processing of each application.

5. We have also reconsidered the question of the residual guarantee in the light of paragraph 3 of your telegram No. 431, and have decided that the best course will be to continue the outstanding guarantee on the lines you advise. You may inform Nasser of this, making it clear that we were at no time thinking of repudiating the guarantee unilaterally. You should suggest that the two banks should determine the amount involved and record their agreement in an Exchange of Letters.

EP 1111/39

(2)

Sir Roger Stevens to Mr. Eden. (Received May 11)

(No. 475. Confidential)
(Telegraphic)

*Tehran,
May 11, 1954.*

Your telegram No. 456.

I am most grateful for your telegram under reference. The draft "Heads of Agreement," amended as instructed in your paragraph 2, were handed to Nasser by Serpell and Titchener this morning with a confidential covering letter, text which is by next bag.

2. Nasser said that he had heard from Amini that the latter was prepared to treat the 40 per cent. figure as [group undecipherable ? arbitrary]. He enquired:—

(a) Whether we would be prepared to grant convertibility up to the full value of the 40 per cent., even if the dollars were not required for current purchases. To this we replied firmly in the negative, reminding him of the course of our previous discussions, during which our attitude on this point had been made quite clear (please see paragraph 1, sub-paragraph (b) of my telegram No. 367 of April 22).

(b) Whether paragraph 4 of the draft "Heads of Agreement" (as now amended) meant that Persia must totally exhaust her present holdings of dollars before calling on the United Kingdom for any measure of convertibility.

We said that, while the text was clear in the affirmative, we would note the enquiry (please see also my paragraph 3 below). Nasser said that while he thought some further discussions might be necessary, he himself did not object to our proposals. Serpell then gave the explanations in paragraphs 4 and 5 of your telegram under reference. On latter point Nasser said that he had had some discussions with Amini who had endorsed remarks reported in first sentence of paragraph 2 of my telegram No. 431. He raised no objection to the proposal for a technical study by the Central Banks of amount involved, and we should expect him to confirm this letter.

3. As regards my paragraph 2 (b) above, we should be grateful for your early instructions in case Persians should revert to the matter. Nasser said to-day that he had about U.S.\$30 millions available for expenditure if required. On basis of present expectations for oil revenues it would seem likely that these will be heavily drawn upon during the next two years, in addition to such dollars as may become available from other sources, including ourselves under any new agreement. One question, however, which may presumably be put to us is whether we would insist on the entire \$30 millions being disposed of before allowing any measure of

SECRET

convertibility. A negative reply might help to clinch matters and, possibly, to avoid American criticism.

4. Please pass advance copy of this and my two immediately following telegrams to Armstrong, Treasury.

EP 1111/40

(3)

Sir Roger Stevens to Mr. Eden. (Received May 11)

(No. 476. Confidential)
(Telegraphic)

*Tehran,
May 11, 1954.*

My immediately preceding telegram.

Following is text of Serpell's letter to Nasser of May 11.

At the conclusion of our meeting on payments question on April 22, at which his Excellency the Minister of Finance Dr. Amini was present, I undertook to draft in the light of the discussion and after reference to my Government, the "Heads of Agreement" of an arrangement between Iran and the United Kingdom on payments questions. In our discussion it was assumed that following on agreement between the Iranian Government and the proposed international consortium of oil companies, the Iranian Government would receive in sterling its revenue from the sale of Iranian oil.

2. The draft "Heads of Agreement," which my Government suggests should serve as basis of a published exchange of letters between Governments, are set out in enclosure to this letter.

3. In addition, my Government propose that there should be an unpublished confidential exchange of letters between Bank Melli, Iran, and Bank of England, in which is recorded the outcome of other principal matters under discussion between us, i.e., Iran's intention not to use facilities proposed in paragraph 3 of draft "Heads of Agreement" for converting sterling into dollars in excess of 40 per cent. of Iran's annual sterling revenue from the sale of Iranian oil. In view of its exceptional nature and for reasons which I have explained on other occasions my Government must ask that the confidential character of this arrangement shall be strictly observed.

4. I should be grateful if you could confirm that the foregoing arrangement would form basis of a satisfactory understanding on payments between Iran and United Kingdom. We shall, of course, be happy to discuss them with you should you wish. If the proposed arrangements are satisfactory I would then propose preparing more formal documents which could be exchanged in due course. Final signatures no doubt taking place when an agreement on the lines contained in paragraph 1 of this letter has been signed between Iran and the Consortium. In the meantime the proposed arrangements should be regarded as provisional and confidential.

EP 1111/41

(4)

Sir Roger Stevens to Mr. Eden. (Received May 12)

(No. 477. Confidential)
(Telegraphic)

*Tehran,
May 11, 1954.*

Your telegram No. 456: Payment.

Your telegram under reference does not deal with the question how far we should reveal

- (a) progress,
- (b) outcome,

of payment negotiations to the American and other parties concerned. (In addition to United States Embassy, Netherlands Minister has latterly been making enquiries.)

2. To some extent the answer may depend on degree of pressure to which we are subjected from other parties concerned. I should still prefer to reach agreement in principle with the Persians before describing the outcome to anyone. At that stage, however, I would propose telling all concerned that we have reached

SECRET

agreement in principle and that the Persians were satisfied with the fairness of the arrangement. The United States Embassy, however, may claim that they have a special interest, as much United States currency is affected. I should be grateful to know whether you would think it appropriate to tell them full details of convertibility arrangement including 40 per cent. if

- (a) Persians agreed,
- (b) it were understood in advance that information would be treated as secret.

3. I should be grateful also for your views on reply to possible questions from other interested parties as to whether there existed any limit to Persia's convertibility other than that contained in the published exchange of letters. Perhaps the best course might be to say that there was an informal understanding between the Central Banks, which was acceptable to both sides, but which must remain confidential.

EP 1111/39

(5)

Mr. Eden to Sir Roger Stevens (Tehran)

(No. 475. Confidential)
(Telegraphic)

Foreign Office,
May 13, 1954.

Your telegram No. 475 [May 11: Payments].

We are glad to note Nasser's general reaction and approve your attitude as reported in paragraph 2 (a).

2. On your paragraph 2 (b) we think it would be unreasonable to insist that Persia's present holdings of dollars (particularly in view of their source) should be completely exhausted before she uses the conversion facilities we are offering. We are of course anxious that Persia should not be enabled to store up dollars, but we recognise her need to have some working balance in dollars and doubt whether it will be feasible to have any precise rules.

3. Your telegram No. 477. While it would clearly be better to reach agreement in principle with the Persians before disclosing anything further to the Americans, we think you should not withhold information to the extent of prejudicing your relations with them. When you do speak, you should tell them of the arrangements in full, including the secret understanding, with the reasons for secrecy, and a request to keep it secret. If asked, you should take the same line with other interested parties, e.g., representatives of the French and Dutch Governments and the Consortium delegation.

4. This seems to us the only way of getting an obligation of secrecy accepted by the interested parties who have some right to know what arrangements we have made and means of finding out if we do not tell them. We could not expect to shelter behind a reference to a confidential exchange between Central Banks.

5. Please let us know what you say and to whom, so that we can take parallel action here.

EP 1111/48

No. 70

PAYMENTS AGREEMENT—AMERICAN INTEREST

(1)

Sir Roger Stevens to Mr. Eden. (Received May 21)

(No. 536. Confidential)
(Telegraphic)

Tehran,
May 21, 1954.

My immediately preceding telegram.

Last night I took Serpell and Titchener, to explain the position reached in the payment negotiations, to Henderson who is leaving Tehran to-day. His reactions were favourable. He promised to insist when reporting to Washington on the need to observe secrecy on our combined formula (of which he had heard something from London. This was the first we knew of such a revelation there).

SECRET

2. Subject to your views, I should hope to avoid acting further on instructions in paragraph 3 of your telegram No. 475 until you have discussed the matter with Serpell in London.

3. Please pass advance copy to Armstrong, Treasury.

EP 1111/48

(2)

Mr. Eden to Sir Roger Stevens (Tehran)

(No. 567. Confidential)
(Telegraphic)

Foreign Office,
June 12, 1954.

Your telegram No. 536, paragraph 2. Payments.

We have reconsidered the instructions in paragraphs 2 and 3 of my telegram No. 475 [May 13]. When correspondence with the Persians about the revised Heads of Agreement has been completed you should volunteer to your Dutch and French colleagues and perhaps also to the Consortium negotiators (see paragraph 3 below) that satisfactory payments arrangements have been agreed in principle with Persians, including full membership of the transferable account area and adequate facilities for transfer of sterling to American and Canadian account. If necessary, and if Persians agree, we would see no objection to revelation of text of inter-governmental Heads of Agreement.

2. We should hope that this would suffice, but should you be asked the question forecast in paragraph 3 of your telegram No. 477 you should reply that the actual operation of the "convertibility clause" must necessarily be on an informal and confidential basis on lines agreeable to the Persians and ourselves. Detailed arrangements (which would not however include day-to-day control by us) would be left to the Central Banks. We hope you will be able to persuade Persians to take the same line.

3. Action on the lines suggested above with Dutch and French should preferably be taken, in the first instance, in Persia but we may have to follow suit here. Please continue to keep us informed therefore of what you do. Action with Consortium may perhaps best be taken here in course of any discussions we have with negotiators, and we shall likewise keep you informed.

EP 1111/48

(3)

Mr. Eden to Sir Roger Stevens (Tehran)

(No. 579. Confidential)
(Telegraphic)

Foreign Office,
June 16, 1954.

My telegram No. 567 [Payments] paragraph 3.

We told the Consortium representatives yesterday that satisfactory payments arrangements had been agreed in principle with the Persians, on the assumption that the Consortium payments to Persia would be made in sterling. We explained that the Persians would be given full transferability and an agreed measure of convertibility (see paragraph 1 of my telegram under reference). We did not intend to exercise day-to-day control over Persian transfers to American and Canadian account.

EP 1111/55

(4)

Sir Roger Makins to Mr. Eden. (Received June 19)

(No. 281 S. Confidential)

Washington,
June 17, 1954.

Your telegram No. 567 to Tehran.

Randolph Burgess asked me to go and see him yesterday. Overby and Glendinning, Hayden Raynor and Corbett of the State Department were also present on their side. I had Rickett and Hall-Patch with me. Burgess said that George Humphrey unfortunately had another engagement, but had asked him to

SECRET

51653

K* 2

put the following point to me. They had had reports about the proposed sterling payments agreement with Iran. They understood that not only was Iran's right to convert sterling into dollars limited to 40 per cent. of her sterling receipts but that also she could make such transfers only for purchases which could not be made within the sterling area. In particular, she would not have the right to convert sterling for the service of dollar debt. Mr. Humphrey was much disturbed at this proposal. Coming on top of the limitation to 40 per cent. of Iran's sterling it seemed to him to be altogether too restricted and to discriminate too heavily against dollar payments.

2. I said that I did not know the details of the proposed payments agreement though I was aware of its general provisions from telegrams which had been repeated to me here. I recalled the history of the Memorandum of Understanding, cancelled in November, 1951 and said that as I understood it under the proposed new arrangements the Iranian Government would receive in sterling its revenue from the sale of oil once agreement had been reached with the Consortium. This sterling would be available for use not merely in the sterling area but in any country of the recently unified "Transferable Account Area." There was, however, to be a limit on the right of Iran to convert sterling into dollars since it would be stipulated that they should not ask for such transfers except for goods or services which could not be obtained on equivalent terms elsewhere. There was also the limit of 40 per cent. of their sterling receipts to which Burgess had referred. I said that I did not know what the position would be about the service of dollar debt. I explained the reasons for which we felt bound to impose these limitations and pointed out that in spite of them the extra dollar burden which we should assume as a result of the agreement might be of the order of \$40 millions a year. We had also to consider the effect of any arrangements which we made with Iran on other Middle Eastern oil-producing countries, particularly Iraq.

3. Burgess said that he understood that we did not propose that each application by the Iranians to convert sterling into dollars would have to be screened by the Bank of England but that some periodic "post audit" would take place. It was possible also that the trade pattern might be such that in fact no large amounts of sterling would be converted into dollars. This being so, they wondered whether the proposed restriction to essential dollar purchases might not prove to be largely formal. If this was so, it seemed a pity to include in the agreement a provision which on the face of it would appear so discriminatory against United States interests. American oil companies were, after all, investing substantial amounts of capital in this proposed new venture.

4. I said in reply that I did not think it could be assumed that because there was to be no screening of each individual transaction the restriction would therefore be purely formal. The Iranians would be under a definite obligation and we should no doubt consult from time to time in order to ensure that it was being carried out. I realised the part which the American oil companies were playing in the Consortium, but we for our part had had to take many unpalatable decisions in the course of these negotiations in the interests of restoring political and economic stability in Iran. I concluded by saying that I understood that the United States Administration were concerned at the limitation of Iran's right to convert sterling into dollars to transfers in respect of goods and services which could not be obtained on equivalent terms elsewhere, and that they would feel strongly if interest and reasonable amortisation of dollar debt were excluded. I undertook to report these views to you without delay and to ask for your comments on them.

5. I learn that the strength of these representations derives from the strong feelings expressed by George Humphrey when he received information about the agreement presumably through the United States Embassy at Tehran. It is possible that some members of the Consortium have been at him, and of course this links up with the general attitude now being adopted by the Administration on the question of discrimination.

EP 1111/55

(5)

Mr. Eden to Sir Roger Stevens (Tehran)(No. 596. Secret)
(Telegraphic)*Foreign Office,
June 21, 1954.*

Washington telegram No. 281 Saving of June 17.

It seems that the United States Government object chiefly to "essentiality clause" and to our reported refusal to allow Persia dollars for service of loans. As you know, the latter subject has only been raised with us indirectly by the Persians and in fact no decision has yet been reached here.

2. The American complaint pays no regard to the benefits the United States members of the Consortium of being able to sell their oil for sterling. We are going into this with the United States Embassy here. In the meantime please do what you can to keep knowledge of the complaint from the Persians and the Consortium. For your information, the United States Treasury representative here says that the United States Secretary of the Treasury has been mainly influenced by telegrams from Tehran sent after May 21. We should be grateful therefore to have any information you can give us about the attitude of the United States Embassy.

3. We will comment further as soon as possible.

EP 1111/55

(6)

Mr. Eden to Sir Roger Makins (Washington)(No. 2907. Confidential)
(Telegraphic)*Foreign Office,
June 22, 1954.*

Your telegram No. 281 Saving of June 17.

The Treasury yesterday discussed your telegram under reference with United States Treasury representative in London and United States Oil Attaché. After some talk about genesis of American complaint (see my immediately following telegram) Treasury gave an account of our relations with United States Government up to the present on this subject, emphasising in particular that:—

- (a) The broad lines on which we proposed to negotiate with the Persians had been described to the United States Treasury representative here (on our initiative) before Serpell's departure for Tehran. He had replied that while he had no formal comments to make, we need not expect any difficulty from the United States Government.
- (b) Soon after his arrival in Tehran Serpell, again on his own initiative, had made a similar explanation to the United States Embassy, who had been given an opportunity of offering views on the measure of convertibility which should be given to Persia's sterling.
- (c) During the negotiations, we in London had kept the United States Embassy here informed.
- (d) An early copy of the "heads of agreement" had been given to the United States Treasury representative on May 20.
- (e) A full explanation of our arrangements and the reasons for them had been given on May 21 to United States Ambassador at Tehran, whose reactions had been favourable.
- (f) There had, nevertheless, been no (repeat no) indication from any source until now that the United States Government were in any way unhappy about the payments arrangements. These have now been agreed in principle with the Persians and, quite apart from any question of merits, we must clearly be most reluctant to make any alterations of substance.

2. The United States representatives seemed at one time to be attempting to show that unfair limitations were being imposed on Persia's convertibility. We replied that, as we had told the United States representatives in Tehran, the Persians themselves had more than once described the arrangements as fair and just. As regards the question of the service of dollar loans, the Persians had raised this only indirectly with us. No final decision had in fact yet been reached here.

3. The United States representatives then concentrated on the difficulties such an agreement would have for the United States Government when published, having regard to the very large amount of dollar assistance which had been given to Persia during the last 3½ years while the United States were "pulling Britain's chestnuts out of the fire." (The United States representatives were unable, on enquiry, to say what proportion of this dollar aid had been available for spending for "offshore purchases.") They also suggested that the expected increase in our dollar burden as a result of the return to Persia was imaginary, or would be much smaller than we expected. They were unable to sustain this argument when the matter was discussed in any detail. We for our part pointed out at some length the benefits to United States members of the Consortium of being able to trade in sterling.

4. As regards the "discriminatory" character of Article 3 of the "heads of agreement," we stressed that this (a) did no more than record the practice of most Sterling Area countries at the present time; (b) repeated the wording of the pre-1951 Memorandum of Understanding (though that document had not been published). It would have been impossible for us to justify to neighbouring oil-producing countries in the Sterling Area an arrangement under which Persia received more favourable treatment than they. They would more probably expect the reverse.

5. United States Treasury representative (who had been in Washington during preparation of United States Government's complaint) did not give a firm reply to the query whether United States Government were objecting more to the publication of Article 3 rather than to its substance.

6. United States Treasury representative to-day (June 22) telephoned to say that he and his colleague would not be reporting this interview. He had, however, no objection to our doing so.

7. We are sending by bag the revised copy of the heads of agreement which we handed to the American representatives to-day, together with the revised draft exchange of letters between central banks (of which the United States representatives have not so far been given a copy). We are considering the points raised in your Saving telegram under reference and will send you instructions as soon as possible.

8. See my immediately following telegram.

EP 1111/55

(7)

Mr. Eden to Sir Roger Makins (Washington)(No. 2908. Confidential)
(Telegraphic)*Foreign Office,
June 22, 1954.*

Guard.

My immediately preceding telegram.

During the talk to which my telegram under reference refers United States representatives laid much stress on the effect which had been produced in Washington by telegrams from Tehran, particularly those following the interview on May 21 (referred to in Tehran telegram No. 536 to me). Serpell expressed astonishment at this.

2. To-day United States Treasury representative telephoned twice, first to suggest that in any reply to Washington we should not dwell on the views said to have been expressed by Tehran, and later to say that, in view of our surprise at Tehran's reported attitude he had re-examined the telegrams sent from United States Embassy, Tehran, after May 21. Except on one matter, now satisfactorily cleared up (the degree of control to be exercised by us over Iran's transfers to American account) these telegrams bore out our view of United States Embassy's reactions to our explanations of the payments arrangements.

3. In the context of other remarks by United States Treasury representative, all this leads us to assume that it may well have been Hoover who (having left Tehran before the completion of our payments talks with Amini) has been responsible for the present American complaint.

SECRET

EP 1111/55

(8)

Mr. Eden to Sir Roger Makins (Washington)(No. 2925. Confidential)
(Telegraphic)*Foreign Office,
June 23, 1954.*

Your telegram No. 281 Saving of June 17. Persia.

We feel the greatest concern at the development reported in your telegram under reference, which we believe springs from a genuine, though needless, misunderstanding. As you will see from paragraph 1 of my telegram 2907 (June 22) we have, from the outset of the negotiations, explained our intentions on the payments side and indeed have taken the initiative in doing so. At no time has there been any suggestion that we were proceeding on lines likely to be objected to by the United States Government. The only period during which some impatience has been expressed was in Tehran when we were in full negotiation with the Persians and when we ourselves were uncertain of the outcome. As soon as we had reached even an oral understanding in principle with the Persians a clear account was given to the United States Ambassador at Tehran who gave it his approbation.

2. Since that date we have been exchanging documents with the Persians and have discussed with the Consortium, representatives of the United States Embassy in London being present, the bases on which we agreed to the use of sterling in connection with the operations of the Consortium. Meanwhile, as it appears from Tehran telegram No. 643 of June 22, detailed enquiries have been made of the Persians, without any word to our own representatives, on matters directly affecting us and which we should have been glad to explain and discuss. It is only now, after agreement has been reached on practically all outstanding points and after the Consortium negotiators have returned to Persia, that these representations have been received.

3. We must emphasise that:—

(a) the United States members of the Consortium have made it quite clear that unless they are permitted to sell Persian oil for sterling they would not be able to take part in the proposed operation on anything like a scale sufficient to satisfy Persia, if at all;

(b) we have therefore a substantial dollar bill to meet in respect not only of Persia's dollar requirements, but those of the United States oil companies. The net additional dollar cost to us, after taking account of any dollar savings resulting from the resumption of operations in Persia, is expected to be in the neighbourhood of £15 millions in the first full year rising to £20 millions in the third year.

4. We must also emphasise that it would be impossible for us to justify to other oil-producing countries in the Sterling Area any arrangement under which Persia, only a fraction of whose oil can be sold for dollars, received more favourable treatment than they. The arrangements devised for and agreed with Persia are in our view fair, and indeed sufficiently generous for us to feel qualms about reactions elsewhere. Our expectation, and we believe Persia's is that *inter alia* they will fully cover all Persia's reasonable dollar requirements.

5. As regards Persia's right to convert sterling for the service of dollar debt the United States Government have been misinformed. In fact this matter has only been raised with us by the Persians in an indirect way and has never been explicitly discussed (though we expect to have to do so before the final formal documents are exchanged). No (repeat no) decision has yet been reached by Her Majesty's Government, but as a result of the consideration given to the matter during the last month we are quite prepared to reach a friendly understanding with the Persians, on lines which we hope would be agreeable to the United States Government, provided that the remainder of the agreement remains undisturbed.

6. As regards the contents of Article 3 of the intergovernmental heads of agreement, these do no more than set out the position which in practice obtains not only in Sterling Area countries, but in almost any country where shortage of dollars necessitates the existence of an exchange control. The wording closely resembles that which regulated our payments arrangements with Persia between 1947 and 1951. Indeed the Persians, accepting that some limitation on their right

SECRET

of conversion is necessary, have been zealous in adhering to wording with which they were already familiar. As regards publication of this wording (which would be a new feature) we should not expect undue attention to be attracted in view of the well-known facts that the world is short of dollars and that some restrictions on currency grounds are inevitable until sterling is freely convertible.

7. As regards the "screening," this will not in fact take an onerous form, but having regard for instance to the Persian desire to have further recourse to us in the event of their reaching the 40 per cent. maximum, we feel it only reasonable that we should be able to point out to them possible dollar economies. As already indicated, we feel we must also be able to explain to Parliament here, as to other Sterling Area countries, that Persia is not being given better facilities for sterling conversion than anybody else. There is of course no (repeat no) intention in the case of Persia or anywhere else of using an exchange control mechanism for "acquiring commercial intelligence" as suggested in Tehran telegram No. 643.

8. Please speak urgently to United States Secretary of the Treasury personally on the above lines and endeavour to secure withdrawal of his objections. (For your information, we are told by United States Treasury representative here that it is Humphrey himself who needs to be tackled on this subject.) In particular we hope that you will emphasise the following points:—

- (i) the nature and outcome of our previous contacts with United States representatives here and in Tehran and our astonishment that they should have failed to seek any necessary further clarification from us;
- (ii) the dangers of altering, so late in the day, an agreement which has been reached with the Persians and with which they are content (though we are concerned at the possible effect of Bray's researches as reported in Tehran telegram No. 643);
- (iii) the great importance we attach to these payments arrangements, having regard to the sacrifices we have made in so many other directions in regard to Persia;
- (iv) our readiness in principle to reach an understanding in regard to the service of dollar loans.
- (v) the leniency of the exchange control arrangements contemplated with Persia;
- (vi) the advantages enjoyed by the United States oil companies through their ability to sell oil for sterling.

9. Please report urgently the outcome of your discussion in order that we may consider what, if any, further action is necessary.

EP 1111/56

(9)

Sir Roger Stevens to Mr. Eden. (Received June 22)

(No. 643. Secret)
(Telegraphic)

Tehran,
June 22, 1954.

Your telegram No. 596: Payments agreement with Persia.

I have just seen United States Ambassador. We were both accompanied by Economic Counsellors.

2. I first impressed on him the need for secrecy while consideration of United States complaint was in progress. He fully accepted this.

3. He then read extract from his telegram of May 27, which described the Serpell/Bray conversation of May 22 reported in my telegram No. 545, and subsequent investigations which Bray had conducted with the Bank Melli concerning the manner in which conversion requests had operated through inter-bank machinery under Memorandum of Understanding. Telegram reflected Bray's doubts, which have not been extinguished, concerning the use of inter-bank machinery for control of conversions, and for acquiring commercial intelligence, and also regarding discriminatory effect on United States export of essential goods, and service clauses in intergovernmental headings of agreement. Position was again explained to Henderson and Bray, but I think it would be useful if I could be given precise account of documentation required by the bank, of use to which

SECRET

it is put, and assurance that nothing more in these respects will be required from Persia than from any country in a transferable account area.

4. I think there is little doubt that United States Embassy telegram of May 27 has given rise to anxiety about essentiality and the 40 per cent. limitation mentioned in Washington telegram No. 281 Saving. On the other hand, Henderson assures me that he has at no time suggested we were proposing to deny the Persians the right to convert sterling for servicing of dollar debt. On the contrary he recognises that this is a matter on which it would be extremely difficult for us to express a view until more specific information is available, as to the extent of servicing required. He believes at present time that there is no [group undecypherable ? debt] of any magnitude which will require servicing in dollars. If America could be given the gist of paragraph 3 of draft inter-bank exchange of letters it might help to remove their doubts, especially as regards operations in the first year.

EP 1111/56

(10)

Mr. Eden to Sir Roger Stevens (Tehran)

(No. 604. Confidential)
(Telegraphic)

Foreign Office,
June 24, 1954.

Your telegram No. 643 [of June 22: Payments].

My telegram No. 2925 to Washington [of June 23]. Please speak to Henderson on the same lines.

2. I hope that in particular you will impress upon United States Ambassador our grave disappointment at the lack of confidence and co-operation shown by Bray's enquiries of the Persians reported in your paragraph 3, when none of us had an inkling that he felt any dissatisfaction.

3. As regards last twenty-two words of your paragraph 3, Persia will have, under these arrangements, advantages not enjoyed by any other transferable account territory. In addition to normal facilities afforded by our commodity market arrangements for acquiring dollar materials for sterling, Persia will have, in contrast to the other transferable account territories, the additional facility of purchasing other essential dollar goods within the agreed limits. As regards your request for "precise account of documentation required by the Bank, &c." we will telegraph further what you may say to the Americans or Persians.

4. Reference last sentence of your paragraph 4. We are considering your suggestion urgently but, as you will recall, we have always discouraged the Persians from believing that this was a device under which the maximum 40 per cent. could readily be exceeded. Hence our refusal to give them an assurance of "favourable consideration." We should all the more wish to avoid giving a misleading impression to the Americans.

5. Until this matter is settled, please avoid if possible acting on last sentence, paragraph 1, my telegram No. 567 of June 12. If you have already done so please inform us.

EP 1111/58

(11)

Mr. Eden to Sir Roger Stevens (Tehran)

(No. 609. Secret)
(Telegraphic)

Foreign Office,
June 25, 1954.

My telegram No. 604 [of June 24], paragraph 4. Persia Payments.

My immediately following telegram gives text of a confidential letter we have to-day sent to United States Treasury representative in London. There is no objection to your informing United States Ambassador of contents of this letter.

2. You will note that we have given only the gist and not (repeat not) the text of inter-Central Bank exchange of letters.

SECRET

EP 1111/58

(12)

Mr. Eden to Sir Roger Stevens (Tehran)(No. 610. Secret)
(Telegraphic)*Foreign Office,
June 25, 1954.*

My immediately preceding telegram. Persia Payments.

Following is text. Begins.

As you are returning to Washington and may perhaps take part in further discussions there of our payments arrangements with Persia, it may be useful for you to know the gist of the confidential arrangements, as agreed between the two Governments, which will exist between the two Central Banks. These are that, due account being taken of Persia's dollar receipts from other sources, Article 3 of the "heads of agreement" (a copy of which I gave to you the other day) will be interpreted as meaning that the Bank Melli will not seek to make transfers to American or Canadian Accounts above an amount equivalent to 40 per cent. of Persia's sterling receipts from the Consortium in any one year. (This is on the assumption that the Consortium will not be paying dollars.) The word "receipts" covers payments both of direct revenue to the Persian Government and sterling spent locally by the Consortium, e.g., on the purchase of rials.

Persia may also consult with us should she take the view that, in a given year, she needs to exceed the 40 per cent. proportion mentioned above. I should perhaps add that, however, while we have agreed to such consultations in case of need, we were unable to agree to a Persian request that we should promise "favourable consideration." The Persians indeed withdrew this request when we agreed that the 40 per cent. "ceiling" should apply to the "indirect" payments of sterling by the Consortium.

I am copying this letter to our Embassies in Washington and Tehran. May I emphasise that its contents refer to arrangements with the Persians which are strictly confidential and that, as I am sure you will understand, I am now explaining them for the information of your own Government only.

Ends.

EP 1111/59

(13)

Sir Roger Makins to Mr. Eden. (Received June 28)

(No. 291 S. Confidential)

*Washington,
June 25, 1954.*

Your telegram No. 2925: Payments arrangements with Persia.

I saw Mr. Humphrey yesterday and put to him all the points in your telegram. Rickett was with me. It was clear from the start that Mr. Humphrey feels very strongly on this question and is convinced that we are trying to force the Persians into an agreement which would not only be unfair but would also arouse the strongest criticism in Congress. I did my best to make him see that this was not so, using all the arguments in your telegram. But as he is not at all well informed, once an idea has got into his head, it is hard work prising it out again. I can only claim a few dents at this first encounter.

2. I began by saying that you were much concerned at the objections which had been raised to the proposed agreement. From the outset of the negotiations we had taken every care to see that our intentions were made clear both to the United States Treasury representative in London and subsequently to the United States Ambassador in Tehran. At no time until my recent talk with Mr. Burgess had we received any indication that the lines on which we were negotiating were likely to meet with any objection from the United States Government. Mr. Humphrey said he did not understand how this could be so. He had been told by Herbert Hoover some weeks ago on the telephone that the arrangement proposed was that Persia should have the right to convert up to 40 per cent. of her sterling receipts. This had seemed to him a reasonable arrangement seeing that the United States companies had a 40 per cent. participation in the Consortium. It was not until they were given "that paper of yours" (I presume

SECRET

the draft Inter-Governmental Heads of Agreement) that he had realised that there was to be a provision preventing the Persians from buying for dollars so long as they could buy the same goods on equivalent terms elsewhere. He had immediately made it clear that he objected strongly to this. I said that this was not our understanding. We had been in constant touch with the United States official representatives both in London and in Tehran. Mr. Humphrey said that perhaps the trouble was that there were too many officials. He regarded Herbert Hoover as being in charge of this affair.

3. I said that we had been all the more concerned to hear of these objections at this late stage when so far as payments arrangements were concerned, agreement had been reached on practically all outstanding points. Humphrey immediately challenged this statement. He apparently did not distinguish between agreement on payments and agreement over the rest of the field. He said that at the present time there was no deal at all, and he implied that, if the payments arrangements were not satisfactory, there might be no deal at all.

4. He then explained why he felt so strongly about our proposal. He said he knew me well enough to speak frankly. The situation was that the Anglo-Iranian Oil Company had lost their concession in Persia and had no hope at all of getting it back. There had been a deadlock for several years during which the United States Government had put up considerable sums in economic assistance to Persia. The United States oil companies had no interest in going into Persia except to prevent Persian oil getting into wrong hands as a result of the breakdown of the embargo which would have been inevitable sooner or later. The Anglo-Iranian Oil Company had nothing to offer because their assets in Persia were irretrievably lost. Nevertheless, the United States oil companies were undertaking to pay them \$1 billion over the lifetime of the new agreement with a down-payment of \$150 millions. It had been agreed that the Consortium should sell its oil for sterling and he had agreed that it was reasonable that the Persians should be able to convert into dollars up to 40 per cent. of the sterling they received. If after all that the United States Government and the United States oil companies had done to save the situation in Persia, we were to try to insist on controlling Persia's commercial policy, there would be an outcry in Congress which would destroy all chances of success in the wider plans for international economic co-operation which we had in mind. He thought that this attempt to dictate to the Persians where they should buy was just as out of date and unacceptable to the Persians as the idea that any British company could resume control of oil operations in Persia.

5. I spoke equally frankly in reply, and said that we both knew that the United States oil companies had decided to take part in the Consortium because it was in their interests to do so. The Consortium would be able to sell its oil for sterling in markets where oil could not be sold for dollars. We were prepared to allow the Persians to convert their sterling into dollars up to a reasonable amount, but as a result, we should have to meet both the dollar requirements of the Persians and also those of the United States oil companies. We estimated that the net additional cost to the Sterling Area reserves, after taking account of any dollar savings which might be expected as a result of the resumption of operations in Persia, was likely to be in the neighbourhood of \$40 millions in the first full year, rising to approximately \$55 millions in the third year. We had to take into account the effect of any arrangements we made with Persia on other oil-producing countries in the Sterling Area, particularly Iraq. You could not justify either to the British Parliament or to other Sterling Area countries any agreement under which Persia, only a fraction of whose oil could be sold for dollars, would receive more favourable treatment than those countries. The arrangements we proposed were perfectly fair and indeed generous to Persia, and this had been recognised by the Persians themselves. The wording of Article III of the Draft Heads of Agreement was in fact the wording which the Persians themselves preferred, since it followed the wording of the Memorandum of Understanding.

6. Mr. Humphrey remained incredulous on all these points. He did not understand how we could lose dollars from the agreement when the United States oil companies were going to pay Anglo-Iranian "a billion dollars." Anyway since the United States had done all that it had to save the position in Persia he objected to a "trade preference" being given to the United Kingdom. (I

SECRET

pointed out, of course, that there was no trade preference to the United Kingdom and that Persian sterling would be freely transferable except to the United States and Canada.) He could not believe that the Persians would have willingly accepted any such arrangement. He was momentarily impressed by the argument that Persia should not be treated better than other oil-producing countries which had behaved properly, but was disposed to think that the American dollar investments in the Persian business was overriding.

7. After the discussion had gone on for a long time I finally suggested that I should send Mr. Humphrey a personal letter setting out our case as clearly and fully as I could. He welcomed this suggestion. He would consider my letter and send me his comments on it.

8. Before I send the letter, I should be grateful for any further comments you may have in the light of what Mr. Humphrey said. In particular, I think it would be useful if we could explain to him in some detail the basis on which we calculate that we shall suffer a net loss of dollars as a result of the resumption of operations in Persia. It should not be difficult, I imagine, to spell this out a little for him.

9. I do not despair of bringing him round in the end.

EP 1111/59

(14)

Mr. Eden to Sir Roger Makins (Washington)

(No. 3104. Secret)
(Telegraphic)

*Foreign Office,
July 1, 1954.*

Your telegram No. 291 Saving [of June 25] Persia Payments.

We are most grateful for your efforts and are encouraged by your paragraph 9. We fully endorse the line taken in your paragraph 5.

2. The following additional comments may be of use either in your proposed letter or in further discussion:—

(i) *Your paragraph 2, 5th sentence*

It is a little hard that Mr. Humphrey should regard us as committed by a telephone conversation between himself and Mr. Hoover; United States Treasury representative in London was in fact given a copy of the then draft inter-governmental heads of agreement (since somewhat slightly revised) at the first meeting at which any American was informed of the 40 per cent. formula. Hoover himself had left Tehran before we were in a position to explain the agreed arrangements to him.

(ii) *Your paragraph 3*

We certainly regard the payments arrangements as an essential part of the settlement with Persia though since it is inter-governmental and affects the whole Sterling Area it is in a rather different category from the Consortium or compensation talks. We do not attach too much weight to Mr. Humphrey's threat in the last sentence of this paragraph. The objectives of the United States Government were mainly strategic and political. Though they now seem also to have in mind a commercial aim (which we shall in effect be assisting, see (iv) below), we cannot believe that failure to have their own way about the payments proposals would lead to "no deal at all."

(iii) *Your paragraph 4*

Mr. Humphrey fails to mention the very large dollar drain incurred by us through payments to the United States oil industry (though not necessarily to the Consortium companies) between 1951 and 1954 as a direct result of A.I.O.C.'s difficulties. We did not refer to this matter earlier since we were, and remain, grateful for American assistance in replacing, to a considerable extent supplies of Persian oil (some markets were of course lost to United States companies). But it may now be worthwhile reminding Mr. Humphrey of this. While you will doubtless wish to avoid too much "accountancy," the dollars spent in this manner may conservatively be put at a total of some \$500 millions (it is impossible to compute precisely).

SECRET

(iv) *Your paragraph 4, penultimate sentence*

We are not of course "insisting on controlling Persia's commercial policy." We are simply trying to limit the dollar cost to ourselves, in a manner which will cause us the least possible embarrassment elsewhere. We can reasonably point out that without the dollars now to be made available to Persia at the expense of the Sterling Area's reserves, United States trade would depend on United States aid and Persia's own low dollar earnings from goods other than oil. Because of the conversion arrangements there will be room for a considerable increase in United States trade, if United States goods are competitive.

(v) *Your paragraph 5, last sentence*

This goes a little too far. The Persians would obviously prefer to have no restrictions at all and unlimited access to dollars. The third sentence of paragraph 6 of our telegram No. 2925 [of June 23] meant that the Persians preferred wording relating to an arrangement of which they already had experience and that they tended to be suspicious of changes lest they be for the worse.

(vi) *Your paragraph 6, penultimate sentence*

No doubt if the Persians had reason to believe that they had American support in seeking still better terms they would quickly ask for more, but they have told us that they are satisfied that the arrangements agreed with them are fair and just. You should emphasise that one of our chief aims in the recent negotiations was to reach an agreement which would not (repeat not), because of an unduly rigorous character, lead to frequent difficulties and requests for amendment. It is significant therefore that it was the Persians who asked that paragraph 5 of the Heads of Agreement should take its present form, i.e., of a continuing arrangement.

(vii) *Your paragraph 8*

See my immediately following telegram, especially paragraph 9.

(viii) You may find a suitable opportunity of pointing out that the present arrangements could scarcely continue to apply should non-resident sterling become convertible. In such circumstances our present intention, though we have not of course discussed the matter with the Persians, would be to treat Persia in the same way as any other non-sterling area country.

3. In view of the desirability of getting this matter cleared up as soon as possible and to enable Her Majesty's Ambassador at Tehran to discuss the formal documents in which this agreement will be recorded, please act as soon as possible, reporting by telegraph rather than by Saving telegram.

EP 1111/59

(15)

Mr. Eden to Sir Roger Makins (Washington)

(No. 3105. Confidential)
(Telegraphic)

*Foreign Office,
July 1, 1954.*

My immediately preceding telegram [of July 1]: Persia Payments.

Here is the material requested in paragraph 8 of your telegram No. 291 Saving.

2. The sums mentioned in paragraph 3 (d) of my telegram No. 2925 were arrived at as follows (all figures in millions of dollars):—

	First Year	Third Year
(a) Dollars for Persia	—34	—84
(b) Dollar production costs in Persia	—5	—6
(c) Dollar savings on product imports by Sterling Area	Nil	+40
(d) Extra dollar cost of our arrangements with United States companies about marketing for sterling	—6	—12
(e) "Consideration" to A.I.O.C. by American members of Consortium at 10 cents per barrel	+3	+8
Net additional dollar cost to United Kingdom	—42	—54

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3.—(a) Assumes that Persia will convert 40 per cent. of her sterling receipts from the Consortium. Total sterling receipts have been calculated from estimates supplied by Consortium members based on 10 million tons of crude in the first year and 30 million tons in the third year.

4.—(b) Is an estimate based on our experience of other oil company operations containing substantial United States participation.

5.—(c) Will arise almost entirely on imports of aviation spirit. We are told by the Consortium that there is no likelihood of any aviation spirit coming out of Abadan in the first year. In the third year we have assumed that there will be no more imports of it from dollar sources into the Sterling Area and that there may also be small marginal savings on middle distillate imports. We have assumed, as do the companies, that apart from aviation spirit, supplies from Abadan will displace those which would otherwise have come from Sterling Area refineries and refineries such as Ras Tanura which serve the Sterling Area.

6.—(d) Is the result of a number of complicated plus and minus items connected with our arrangements with the American companies enabling them to accept sterling for their sales of oil both to the Sterling Area and to non-dollar non-sterling countries.

7. As regards (e) the payment to A.I.O.C. by American members of the Consortium of 10 cents per barrel of crude off-taken by them will reduce the American companies' profit remittances and so save us dollars. Of course, if the Consortium should succeed in persuading the Persians to accept this payment as a production "cost" (which seems unlikely), the Persians in effect will pay half of it and our dollar saving will be substantially reduced.

8. We have not taken into account the down payment which the American companies will be making to A.I.O.C. and which will be \$60 millions spread over a period of twelve months. We regard this payment as a capital sum offsetting to a slight extent the very heavy dollar drain which we will have suffered between 1951 and the present day on account of Anglo-Iranian's expulsion from Persia (cf. paragraph 2 (iii) of my telegram under reference).

9. The "\$1 billion" including down payment of \$150 millions quoted by Mr. Humphrey is the total "consideration" payable by all members of the Consortium including the member representing A.I.O.C. Of this consideration, only the 40 per cent. payable by the American members (i.e., \$60 millions down payment plus \$340 millions continuing payments of which the \$3 millions and \$8 millions shown against (e) above are the first and third year instalments) will be a dollar gain to us.

EP 1111/69

(16)

Sir Roger Makins to the Honourable George M. Humphrey, United States Secretary of Treasury

(Personal)

*British Embassy, Washington, D.C.,
July 3, 1954.*

Sir,

At the end of our talk last week about the proposed payments agreement between the United Kingdom and Persia, I promised to let you have a letter setting out our views. But before doing so I thought it best to obtain more detailed information on one or two points which you raised.

2. I will not spend much time on matters of past history, but you will remember that we discussed how the present misunderstanding could have arisen. You said that you had understood from Herbert Hoover that the arrangement was that Persia should have the right to convert up to 40 per cent. of her sterling receipts and that this had seemed to you a reasonable arrangement seeing that the United States companies had a 40 per cent. participation in the Consortium. It was only later when you were given a copy of our draft Heads of Agreement with the Persian Government that you realised that there was to be in addition a provision preventing the Persians from buying for dollars unless the goods were essential and could not

SECRET

be bought on equivalent terms elsewhere (i.e., in any country where they would not have to pay dollars).

3. I have now confirmed that, from the outset of the negotiations, we made our intentions clear both to the United States Treasury representative in London and subsequently to the United States Ambassador in Tehran. The United States Treasury representative in London was given a copy of the draft Intergovernmental Heads of Agreement (since somewhat slightly revised) at the first meeting at which any American was informed of the 40 per cent. formula, though Herbert Hoover himself had left Tehran before our people were able to talk about it to your representatives.

4. So it looks as if we made it clear from the start that there was to be not only a ceiling of 40 per cent., but also a limitation of the Persians' right to turn sterling into dollars to cases where the goods were essential and they could not make the purchases in equivalent terms outside the dollar area.

5. You told me frankly in our talk that you did not think our proposed arrangements were fair and reasonable. You said that Congress would never understand why we should want to prevent the Persians spending sterling on dollar goods when the United States Government had put up substantial sums in dollars to keep the Persian economy going over these last few years and the United States oil companies, who are to join the International Consortium, would be paying large sums to the Anglo-Iranian Oil Company in the form both of a down-payment and of payments spread over a period of years. But, as I am sure you would agree, the cancelling of the Anglo-Iranian Oil Company's concession in Persia and the crisis which arose in consequence in our relations with the Persian Government, raised a very large issue with serious political and strategic consequences. We have always recognised that it was in the interests of both our Governments to find a way out, and that if matters dragged on as they were the results might have been serious not only to the international oil industry, but also to the political and strategic interests of the free world. That, I believe, was why your Government took the action they did, and surely the United States oil companies are joining the Consortium, however reluctantly, because they think it is in their interests to do so.

6. In reckoning up, however, what the Persian crisis cost us and to what extent in consequence we can give the Persians the right to convert sterling into dollars, it should not be forgotten that as a direct result of the Persian action in appropriating the Anglo-Iranian Oil Company we were obliged to make very large dollar payments between 1951 and 1954 to the United States oil industry (not necessarily, of course, to the Consortium companies) in order to replace, so far as possible, the supplies of Persian oil we had lost. We were very grateful to the American companies for their assistance. They had to resort to special measures to make the oil available, and we were glad to buy it from them. It helped to tide us over, though some of our markets were lost to United States companies. The fact is, however, that as a result we had to spend on United States oil over these three years something of the order of \$500 millions (it is not possible to give a precise figure). We shall, it is true, be getting a down-payment of \$60 millions spread over twelve months which the American members of the Consortium will be making to the Anglo-Iranian Oil Company. We feel justified, however, in regarding this as a slight offset to the heavy dollar drain which we suffered between 1951 and the present day, and we certainly would not consider it to be any justification for increasing the dollar burden which we shall be assuming in respect of Persia under the new arrangements.

7. I mentioned when I saw you that we estimated that the net additional cost to the sterling area reserves, after taking account of any dollar savings which may be expected as a result of the resumption of operations in Persia, is likely to be in the neighbourhood of \$40 millions in the first full year, rising to approximately \$55 millions in the third year. The calculations on which these figures are based are given in the attached note. I should like to emphasise what I said in our talk, namely, that the United States members of the proposed International Oil Consortium have made it clear that unless they can sell Persian oil for sterling, they will not be able to take part in the proposed operation, at any rate on a sufficient scale. The United States oil companies will in consequence enjoy considerable advantages through their ability to sell oil for sterling. It is a fact that only a fraction of the oil produced in Persia could be sold for dollars. All

SECRET

the payments of the Consortium, therefore, to the Persian Government will be made in sterling, and it is only fair and reasonable that there should be a limit to their right to turn it into dollars. As I told you in our talk, the British Government could never justify to the British Parliament and to other oil-producing countries in the sterling area, any agreement under which Persia would receive more favourable treatment than those countries, particularly after the way the Persians have behaved over the oil concession. What should we say, for example, to Iraq who, as a member of the sterling area, is expected to limit her dollar expenditure so far as possible, if we give the Persian Government much greater freedom to turn their sterling earnings into dollars? We have in fact had considerable doubts about the wisdom of agreeing to so high a ceiling as 40 per cent. for the Persians, and it is because of the fear of repercussions in other countries that we have asked that it should be embodied not in the published agreement, but in an exchange of letters between the Bank of England and the Bank Melli, which is to be kept secret.

8. I would also like to be sure that there is no misunderstanding about the terms of the agreement with the Persians. The arrangements we are proposing do not involve anything which could be called a "trade preference" either for the United Kingdom or for the other sterling area countries. The sterling which is paid to the Persians by the Consortium will be freely transferable throughout what is known as the "transferable account area" and includes every country in the world except Canada, the United States, and those other countries which are included in the "American account area." Moreover, if, as we hope, we are able to bring to a successful conclusion the plans you know of for making non-resident sterling convertible, then of course in those circumstances the arrangements now proposed will no longer apply, and Persia will have the same freedom to convert sterling into dollars as any other country outside the sterling area.

9. Until, however, we are able to make sterling convertible, we cannot treat Persia better than other countries. It is true that this puts a limit on the ability of the Persians to buy dollar goods and services, but as you will see from the figures enclosed, we estimate that the Persians will be able to draw \$34 millions from the sterling area reserves in the first year of the agreement and \$84 millions in the third year. But for this, the only dollars they would have to spend on American goods would be those which you might give them in the form of aid and such dollars as Persian herself can earn by selling for dollars goods other than oil. (As I have already said, very little Persian oil could be sold for dollars.)

10. I mentioned in our talk that the Persians themselves do not regard the arrangements which we proposed as onerous or unfair. No doubt if they had reason to believe that you would support them in asking for still better terms they would quickly do so, but they have told us that they are satisfied that the arrangements agreed with them are fair and just. One of our chief aims in the recent negotiations was to reach an agreement which would not be too harsh and would therefore "stick." Given that there was to be a limit on their right to convert sterling into dollars, the Persians themselves preferred the wording of the present agreement because it was the same as the wording in the previous agreement (terminated in 1951) of which they already had experience. They themselves also asked that paragraph 5 of the draft Heads of Agreement should take its present form, i.e., of a continuing arrangement.

11. There is one other point which I should mention. When I talked about this to Randolph Burgess, he said that you were particularly concerned that the Persians should be entitled to convert sterling for the reasonable service of dollar indebtedness and I promised to look into this point. The position on this is that this matter has not yet been formally discussed with the Persian Government, and no decision has yet been reached by my Government. We have, however, been considering the matter during the last month and we are fully prepared to reach a friendly understanding with the Persians on lines which we hope will be agreeable to you. This will, however, only be possible provided that the rest of the agreement remains undisturbed.

12. I hope you will find these explanations helpful. I am, of course, at your disposal to discuss the matter further with you at any time.

I have, &c.

ROGER MAKINS.

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Enclosure

Dollar Cost of Proposed Agreement with Persia

(all figures in millions of dollars)

	First Year	Third Year
(a) Dollars for Persia	-34	-84
(b) Dollar production costs in Persia	-5	-6
(c) Dollar savings on product imports by Sterling Area	Nil	+40
(d) Extra dollar costs of our arrangements with United States companies about marketing for sterling	-6	-12
(e) "Consideration" to A.I.O.C. by American members of Consortium at 10 cents per barrel	+3	+8
Net additional dollar cost to United Kingdom	-42	-54

EP 1111/70

(17)

Sir Roger Makins to Mr. Eden. (Received July 14)

(No. 1462. Secret)
(Telegraphic)

Washington,
July 13, 1954.

My telegram No. 1422: Persian Payments.

George Humphrey returned to the charge to-day on the telephone in terms which made me think that he had either not read or had not fully absorbed the arguments in my letter of July 3.

2. He maintained his position that there should be no limitation or restriction on Persian trading with the dollar area up to the amount of 40 per cent. of their sterling earnings and that within this figure there should be no preferences elsewhere and no screening of any kind. He said that if the United States were not allowed to trade with Persia on even terms after all they had done to bring about an oil settlement he would regard it as "unfair" and would consider that we were exacting "our pound of flesh."

3. He said that if, nevertheless, we insisted on proceeding with the agreement on the present basis, then the United States Government would have to decide whether or not they would accept it. Personally he did not think this was a large enough matter for which to upset the whole arrangement and he would recommend that the United States Government should acquiesce. But he wanted to assure me that there would be a lingering feeling of resentment and that if we squeezed the last ounce out of them on this occasion they would remember it and be equally hard traders when the next occasion came along.

4. I briefly recapitulated the main reasons why we could not give Persia better treatment in this matter than other non-dollar countries and pointed out that this was the type of arrangement inherent in an inconvertible system. But he would have none of this and stuck to his main point that if discrimination was permitted against the dollar area after all the Americans had done to save the Persian situation, while they might have to lump it, they would not like it and would remember it for the next time.

5. He added that he did not ask us to change our documents provided that they were interpreted in a way which would bring the result he wanted.

6. I said that I had presented our position as clearly and as fully as I could and that I could go no further. All I could do was to report that he still felt very strongly in the sense in which he had expressed himself. He accepted this.

7. I am sorry that George Humphrey is being so silly about this. Though virtually impervious to argument on this matter he could not have been more friendly even when uttering dark threats for the future. I can only suggest that perhaps after a word with Burgess the Chancellor should send me a personal message for him which will enable him to give in with as good a grace as possible.

SECRET

EP 1111/75

(18)

Sir Roger Makins to Mr. Eden. (Received July 22)(No. 1544. Secret)
(Telegraphic)*Washington,
July 21, 1954.*

My telegram No. 1462, paragraph 7. Persian Payments.

I should like to be able to give Humphrey a reply about this matter soon. I had thought that there might be some discussion of it in London, but I have been in touch with Randolph Burgess and understand that it did not come up.

2. I suggest that it might be possible for the Chancellor to say that, after full consideration it is not possible for him at this late stage to alter the terms of the proposed agreement with the Persians, but that (a) we hope to make an arrangement with the Persians covering the reasonable service of dollar indebtedness. (b) in deciding what goods are "essential" and in what circumstances they cannot be obtained on "equivalent terms elsewhere" we will give a liberal interpretation to both those phrases.

3. I have not suggested, and do not suggest now, that we should make any change of substance in our position. But something on the foregoing lines would help George Humphrey to give in with a better grace.

EP 1111/75

(19)

Mr. Eden to Sir Roger Makins (Washington)(No. 3562. Confidential)
(Telegraphic)*Foreign Office,
July 22, 1954.*

Your telegram No. 1544 [of July 21]: Persian Payments.

A letter from the Chancellor to Humphrey signed before receipt of your telegram is on its way to you. We think it covers sufficiently your point (B). As regards your point (A) you will have seen from Tehran telegram No. 756 that Persians have not raised this matter as we expected them to do. In giving the Chancellor's letter to Humphrey you may at your discretion explain the position and add that we remain fully prepared if and when the Persians later raise the matter to reach a friendly understanding with them on lines which we hope will be agreeable to Humphrey. This is provided of course that the rest of the agreement remains undisturbed.

EP 1111/78B

(20)

Record of Conversation between Her Majesty's Ambassador in Washington and the United States Secretary of the Treasury

I saw Mr. Humphrey to-day about Persian payments. I told him that the Chancellor's letter had reached him prematurely as I had been anxious to bring it down myself. I also wished to make two points in regard to it.

The first was to emphasise that there would be no screening of individual transactions. We should only take the matter up with the Persians after the event if their policy was seriously out of line. Under this procedure there could not be anything but a pretty liberal interpretation of the words "essential" and "equivalent terms."

The second point related to the payment of interest on dollar indebtedness. I said that the Persians had not raised this with us but that in view of the American interest we were now proposing to raise it with them, and we had little doubt of being able to reach an agreement which we thought would be agreeable to the Americans.

Mr. Humphrey thanked me for this communication. He said that he had not yet studied the Chancellor's letter as yet and had passed it to Mr. Burgess. He would let me know whether he had anything further to say on the subject.

SECRET

EP 1111/108

No. 71

PAYMENTS AGREEMENT

(1)

Text of Notes and Letters exchanged with Persia

Sir Roger Stevens to Sir Anthony Eden. (Received October 29)(No. 85 E. Confidential)
Sir,*Tehran,
October 26, 1954.*

I have the honour to enclose the text of the notes and letters regarding the payments arrangements between the United Kingdom and Persia which, in accordance with your instructions, I exchanged with the Persian Minister of Finance on the 25th October. The original texts of Dr. Amini's note and letter are also enclosed.⁽¹⁾

2. As you will be aware, it has been agreed that the notes will in due course be published, but that the text of the letters is to remain confidential, the Persians, however, being at liberty to mention the existence of the understanding which they contain.

3. After the exchange had taken place Dr. Amini expressed the hope, which I reciprocated, that this would mark the end of an unhappy chapter in our relations, which was best forgotten, and the beginning of a period of expanding trade between our two countries.

4. I am sending a copy of this despatch to Her Majesty's Ambassador at Washington, to the British Middle East Office, Her Majesty's Treasury, the Commercial Relations and Exports Department of the Board of Trade and the Export Credits Guarantee Department.

I have, &c.

R. B. STEVENS.

⁽¹⁾ Enclosures 1 and 2 not printed. The text of the Notes exchanged is contained in Cmd. 9314.

Enclosure No. 3

(Confidential)
Your Excellency,*Tehran,
25th October, 1954.*

Following our conversation concerning the last clause of Article 3 of the letters exchanged between us to-day dealing with the payments arrangements between our two countries, I wish to confirm our mutual understanding that it is the intention of our two Governments to apply these arrangements in the same spirit which governed the payments arrangements agreed in 1947. In particular I should like to record our understanding that, in view of the difficulty which Iranian importers may have in producing proof that they have applied to suppliers in sterling area countries and other non-dollar countries for a commodity and that they have not been able to obtain it on the same terms and conditions in these countries, we may assume that applications made for imports from dollar countries are in respect of goods not otherwise obtainable on equivalent terms. I would be grateful if you would confirm this understanding.

Yours sincerely,

Minister of Finance.

(Signed) DR. AMINI.

His Excellency
Sir Roger Stevens,
Her Britannic Majesty's Ambassador,
Tehran.

SECRET

SECRET

Enclosure No. 4

ECD 11211/207/54

(Confidential)

Your Excellency,

British Embassy, Tehran,

25th of October, 1954.

Thank you for your letter of the 25th of October, 1954, which reads as follows:—

"Following our conversation concerning the last clause of Article 3 of the letters exchanged between us to-day dealing with the payments arrangements between our two countries, I wish to confirm our mutual understanding that it is the intention of our two Governments to apply these arrangements in the same spirit which governed the payments arrangements agreed in 1947. In particular I should like to record our understanding that, in view of the difficulty which Iranian importers may have in producing proof that they have applied to suppliers in sterling area countries and other non-dollar countries for a commodity and that they have not been able to obtain it on the same terms and conditions in these countries, we may assume that applications made for imports from dollar countries are in respect of goods not otherwise obtainable on equivalent terms. I would be grateful if you would confirm this understanding."

I confirm with the authority of my Government that I am in agreement with this understanding.

Yours sincerely,

(Signed) R. B. STEVENS

(Her Britannic Majesty's Ambassador)

His Excellency

Dr. Ali Amini,

Minister of Finance,

Imperial Iranian Ministry of Finance,

Tehran.

EP 1111/109

(2)

Sir Roger Stevens to Sir Anthony Eden. (Received October 30)

(No. 1241. Confidential)

Tehran,

(Telegraphic)

October 30, 1954.

There would seem to be advantage in telling the Americans about exchange of letters regarding interpretation of the last clause of Article 3. They are bound to hear of the existence of these letters in Tehran. And they would provide fresh evidence of our intention to interpret the arrangement liberally in accordance with your telegram No. 608 and the Chancellor's letter of July 21 to Mr. Humphrey.

2. If this suggestion is approved I shall be grateful for early instructions regarding what we may tell the United States Embassy. So far we have merely told them that inter-governmental letters have been signed and inter-bank letters are awaiting signature.

EP 1111/109

(3)

Sir Anthony Eden to Sir Roger Stevens (Tehran)

(No. 1203. Confidential)

Foreign Office,

(Telegraphic)

November 4, 1954.

Your telegram No. 1241 of October 29. Payments.

We agree that you may explain matters to the United States Embassy and, if you think it desirable, show them the text in strict confidence.

SECRET